

## **Policy Statement** **PS23/7**

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Broadening retail and pensions  
access to the long-term asset fund

**June 2023**

## This relates to

Consultation Paper CP22/14  
which is available on our website at  
[www.fca.org.uk/publications](http://www.fca.org.uk/publications)

We are asking for comments on  
Chapter 4 by 10 August 23

You can send them to us using  
the form on our [website](#).

**Telephone:**

+44 (0)20 7066 3678

**Email:**

[ps237@fca.org.uk](mailto:ps237@fca.org.uk)



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## Chapter 1

# Summary

- 1.1** This Policy Statement (PS) sets out our response to the feedback we received to Consultation Paper CP22/14, proposing the broadening of retail and pension scheme distribution of the Long-Term Asset Fund (LTAF). It details the final rules and guidance that we are introducing following the consultation.
- 1.2** The LTAF is a new category of authorised open-ended fund specifically designed to invest efficiently in long-term, illiquid assets. Illiquid assets include venture capital, private equity, private debt, real estate and infrastructure. They can provide a useful alternative investment opportunity for consumers able to bear the risks of such investments. An ability to invest in long-term illiquid assets, through appropriately designed and managed investment vehicles such as the LTAF, is also important in 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 liquidity.
- 1.3** Previously, retail promotion of the LTAF was restricted to professional investors, certified and self-certified sophisticated investors, and certified high net worth individuals (HNWI). Additionally, pensions exposure to the LTAF was restricted to Defined Benefit (DB), and the default arrangement within qualifying Defined Contribution (DC) schemes.
- 1.4** Some retail investors seek out non-traditional investments in a search for diversification or higher returns. Given the regulatory standards that LTAFs must meet, and following feedback received during the consultation process developing the LTAF, 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. In August 2022, we therefore published CP 22/14 – Broadening retail access to the long-term asset fund ([here](#)), consulting on proposals to treat the LTAF as a Restricted Mass Market Investment (RMMI), in line with our approach for high-risk investments. As the LTAF is inherently a higher risk product than is typically distributed to retail investors, the RMMI regime offers additional protections including risk warnings and restricting the amount that retail investors can invest compared to the LTAF's previous distribution rules. The new rules therefore enable a broader range of retail investors and pension schemes to appropriately access the LTAF whilst ensuring they understand the risks involved.
- 1.5** The effect of these rules should be that consumers who invest in an LTAF take informed risks. There is a consequent question of what responsibility consumers should have for their investment, having been informed of the risks they are taking. In light of this, this paper also includes questions in chapter 4 on whether excluding Financial Services Compensation Scheme (FSCS) cover for the LTAF would be appropriate. Following this, if we are minded to take this forward, we will consult on the detail including a draft Handbook instrument and cost-benefit analysis later in 2023. Consulting on excluding the LTAF from FSCS cover is a first step toward change before the broader (and

previously flagged) consideration of FSCS scope for higher risk investments as part of the Compensation Framework Review..

## Who this affects

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- 1.6** This PS 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
  - investment advisers and private wealth managers
  - insurers who write unit-linked long-term insurance contracts
  - fund distributors
- 1.7** This PS 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.

## The wider context of this policy statement

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### Our consultation

- 1.8** 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. Restricting access to the investment universe unnecessarily also carries risk to investors, and with these proposals we seek to strike a balance between these risks. Given the regulatory standards that LTAFs must meet, and noting feedback received during the consultation process developing the LTAF, 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.
- 1.9** Our August 2022 consultation set out proposals for broadening the retail and pensions distribution of the LTAF to more categories of retail investors and policyholders, whilst including further investor protections. We proposed treating the LTAF as a RMMI, in line with PS22/10 (Strengthening our financial promotion rules for high-risk investments). This will enable a broader range of retail investors and policyholders to access the LTAF whilst ensuring they understand the risks involved and can absorb potential losses.

- 1.10** There is significant work underway across the regulatory landscape about how to reform retail access to investments more broadly and where responsibility for risk should lie for those seeking out high risk investments– with firms, or with the consumers who seek out high risk investments. There is significant work underway on potential reform of the advice/guidance boundary, the future of retail disclosure (DP22/6: Future Disclosure Framework) - under our Consumer Investments Strategy we have set out an ambition to stabilise and then reduce the FSCS levy [here] and we have sought views on reform to the compensation framework (DP21/5 - Compensation Framework Review). There is also work underway to identify ways in which the UK regime for asset management can be updated and improved DP23/2: Updating and improving the UK regime for asset management.
- 1.11** In agreeing to extend retail access to LTAFs, but under the safeguards of the regime for high-risk investments (via treatment as a RMMI) we have an opportunity to consider now, before the work to reform the broader regime for retail investments concludes, whether FSCS coverage should apply. For this reason, Chapter 4 of this policy statement asks whether FSCS coverage for the LTAF should be removed and if there are any other related actions that should be taken. We would welcome views on this topic as soon as possible but no later than 10th August, to allow us to consider next steps ahead of approval of any potential LTAFs that will promote to mass market retail customers. We believe it is sensible to ask these questions now, rather than wait for the outcome of the broader work to reform the retail investment regime which will take a longer period of time, so that there is a clear position on this before LTAFs are launched to retail consumers. We welcome direct engagement on the questions in Chapter 4 during this period of discussion if stakeholders would like to engage directly the period of discussion.

### How it links to our objectives

- 1.12** The final rules set out in this PS 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 consumer protection. The new rules 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. The rules look to balance retail investor demand against the need to ensure they are not taking excessive and undisclosed risks.
- 1.13** In finalising the rules, we have considered the degree of risk associated with investing in an authorised open-ended fund that predominantly invests in illiquid assets, the strong governance and disclosure requirements of the LTAF, and what additional protections would be necessary to secure an appropriate degree of protection for retail investors. We have taken into account the lower levels of experience and expertise of retail investors, their need to access their investments and their ability to absorb losses.

## What we are changing

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- 1.14** We are proceeding with final rules generally as consulted in CP22/14 which recategorises a unit in an LTAF from a Non-Mass Market Investment (NMMI) to an RMMI. This means that distribution will be extended so that mass market retail investors, as well as self-select DC pension schemes and Self-Invested Personal Pensions (SIPPs) will be able to invest into an LTAF.
- 1.15** Recategorisation to RMMI means that firms marketing LTAFs to retail investors will need to provide risk warnings and summaries, firms selling or arranging the sale of units in LTAFs will need to conduct an appropriateness assessment for all retail investors wishing to invest in the LTAF, and unadvised retail investors will need to confirm that their exposure to investments subject to the RMMI rules (including LTAFs) is limited to 10% of their investable assets. We have designed the measures to reduce the chance of investors investing without a strong understanding of the risks. This is consistent with the aims of the Consumer Duty which requires firms to act to deliver good customer outcomes. Firms should also consider the Duty's rules and guidance, including under the consumer understanding outcome, when developing their approach.
- 1.16** As a result of consultation feedback, we are making the following changes to the retail distribution and COLL rules as consulted on:
- **Risk Warning/ Summary text:** We accept feedback that the proposed existing risk warning and risk summary over emphasised investment risk. We have amended the risk warning and summary in the final rules to focus more on liquidity risk.
  - **Fund-of-funds exposure limits:** As consulted, we are permitting a Non-UCITS Retail Scheme Fund of Alternative Investment Funds (NURS FAIF) to invest up to 35% of the value of its scheme property into a single LTAF. We proposed prohibiting a NURS FAIF from investing over 50% of its scheme property into LTAFs. After consideration of the feedback, we are allowing a NURS FAIF to invest more than 50% of its scheme property in LTAFs as long as the NURS FAIF operates limited redemption arrangements to manage the liquidity mismatch.
  - The NURS FAIF must be satisfied that the liquidity, redemption policies and dealing arrangements of any LTAF(s) in which the NURS FAIF invests allows it to meet its redemption obligations. The NURS FAIF should also consider the liquidity of other assets in which it invests, which may result in NURS FAIFs having to operate limited redemption arrangements in circumstances where less than 50% of its scheme property is invested in LTAFs.
  - **Third-party valuation rules:** We received feedback that valuers considered that the rules (as consulted on) required them to make a judgement on consistency between the liquidity/ redemption profile of the LTAF and liquidity profiles of its portfolio real estate assets, leading to very conservative valuations. We have therefore modified this rule in line with valuation requirements for the NURS, which is known to be workable.
  - **Retail investor protection rules:** We are also amending how some of the additional investor protection rules (that already apply to retail authorised funds) apply to LTAFs to align with our original policy intent. These additional rules are intended to provide additional protection for mass market retail investors and should not apply to LTAFs that have only professional, HNWI, certified

sophisticated or self-certified sophisticated unitholders. In the draft rules annexed to the CP, some of these rules were extended to all LTAFs without modification, we have corrected this. The additional retail investor protection rules comprise:

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

**1.17** We are also making the following changes to the draft pensions distribution rules as consulted in response to consultation feedback:

- **Self-select DC scheme exposure limit:** We have changed the exposure limit for self-select defined contribution scheme investors.
- **Non-advised investors:** We have expanded distribution to include non-advised investors in long term unit-linked products including non-workplace schemes and non-qualifying workplace schemes.
- **35% illiquid assets limit:** We have amended the final rules to remove the 35% restrictions on illiquid assets in unit-linked fund structures within the default arrangement of a qualifying scheme, in line with the policy intent of the consultation.
- **Notification of Illiquidity:** We have clarified that consumers with exposure to LTAFs in self-selected pensions or SIPPs should receive a notification alerting them to the illiquid nature of their holdings as they approach retirement age.

## Outcome we are seeking

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**1.18** 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.

**1.19** Our amendments to the LTAF rules and guidance expands 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 LTAFs to invest in long-term, illiquid assets. Not all LTAFs would necessarily be appropriate for all retail investors.

**1.20** When finalising rules to evolve the distribution regime for the LTAF, we have had regard to the priority outcomes set out in our [Business Plan](#), specifically that consumers:

- are sold suitable products and services that are designed to meet their needs and characteristics;
- get products and services which are fair value; and

- understand the information they are given and make timely and informed decisions as a result

**1.21** As part of our consultation, we asked respondents to give comments, including examples of potential unintended consequences of the changes we proposed.

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

**1.22** Many respondents agreed that retail investors would benefit from accessing long term illiquid assets but proposed some amendments to improve the effectiveness of the rules. Some respondents supported the proposals but expressed concern that some factors could significantly affect the likelihood of new LTAFs being marketed or could lead to reduced consumer demand. A small number were unsupportive of the overall proposals and said that as LTAFs are as yet untested, their distribution to the wider retail market is likely to be a source of consumer harm.

## Measuring success

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**1.23** We consider that success would be that some LTAFs are established and offered to a wide range of retail investors for whom the investment would be appropriate. 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 key criteria of the authorised LTAF funds (strategy, liquidity and redemption profile, target market, etc.) on an ongoing basis.

**1.24** We will consider metrics such as the level of compliance with consumer journey rules, including the risk warning and risk summary rules, adherence to the requirement for evidence that restricted retail investors have agreed to allocate no more than 10% of investible assets into RMMI products, etc.

## Summary of feedback and our response

**1.25** We received 26 written responses to CP22/14, and have engaged extensively with stakeholders, including with the Investment Association, Association of British Insurers, Association of Investment Companies, Royal Institute of Chartered Surveyors and others.

**1.26** Most of the respondents agreed that access to long-term illiquid assets will be of benefit to retail consumers. However, some respondents proposed amendments to risk warnings, exposure limits (including of multi-asset funds), retail fund rules in relation to LTAFs targeted at professional investors only, third-party valuation rules, and other minor technical amendments to improve the effectiveness of the regime.

**1.27** 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 fed back that ISA



eligibility could help facilitate retail widening access, and consumer demand would be greatly reduced if the LTAF was not ISA eligible. As tax matters, including but not limited to the ISA regime, are for HM Treasury and HMRC to determine, we have passed on that feedback.

- 1.28** There was concern amongst some respondents that investment platforms may encounter problems in accommodating LTAF distribution. Some respondents noted that platforms may be reluctant to launch products with notice periods as current market infrastructure is based on daily dealing. Others raised the concern that the advent of Consumer Duty made it unlikely for platforms to promote or sell LTAFs to their target markets due to the increased cost they would incur in meeting the information obligations of the Duty.
- 1.29** We received 17 consultation responses relating to our proposals for pensions access to the LTAF, mostly from industry. While they generally supported broadening pensions access to the LTAF, most respondents called for our proposals to be expanded, highlighting an inconsistency between access for pension holders via pension schemes and access for retail investors through the RMMI framework. Further suggestions and comments were made on the alignment of the policy intent and draft rules, additional consumer protection measures, and the classification of fund types.

## Equality and diversity considerations

- 1.30** In putting together the final rules and guidance in this PS, we have had due regard to the need to eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited under the Equality Act 2010, the need to advance equality of opportunity between those who share a protected characteristic and those who do not, and the need to foster good relations between persons who share a relevant protected characteristic and those who do not. Overall, we do not consider that the rules and guidance in this PS adversely impact any of the groups with protected characteristics i.e.: age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment. However, we recognise that investing in LTAFs will require certain types of investor, for example those close to retirement, to carefully consider when they might need to take out the proceeds of their investment. We asked:

**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.*

- 1.31** None of the respondents expressed any concerns or provided any feedback on equality and diversity issues related to our proposals. We are proceeding on the basis that there are no equality or diversity considerations linked to the rules and guidance.

## Next steps

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### What you need to do next

- 1.32** We encourage firms who are considering making an authorisation application for an LTAF to engage with us prior to submitting an application.
- 1.33** Any LTAFs already authorised that are structured as an Authorised Contractual Scheme (ACS) must, if they intend to continue distributing to professional, sophisticated or HNWI only, alter the contractual scheme deed (as per s261Q FSMA) accordingly.
- 1.34** We welcome feedback on the questions in Chapter 4 by the 10 August 2023 via [ps237@fca.org.uk](mailto:ps237@fca.org.uk) or [Qualtrics form](#). We will consider all feedback.

### What we will we do next

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- 1.35** We set out the final Handbook text in Appendix 1. The new Handbook rules and guidance will come into force on the 3rd of July 2023. Authorised fund managers of funds that are already authorised as LTAFs when the rules come into force will have a transitional period to make the necessary changes to the relevant instruments constituting the fund and prospectus so that these documents reflect the new requirement in COLL 15.1.3R(4) where it applies. The effect of the transitional period is that Authorised Fund Managers (AFMs) will need to update the instrument constituting the fund and the prospectus whenever they are next updated or by 3 July 2024, whichever is earlier. These transitional provisions are in the Transitional Provisions section at the end of the COLL sourcebook.

## Chapter 2

# Broadening retail investment distribution

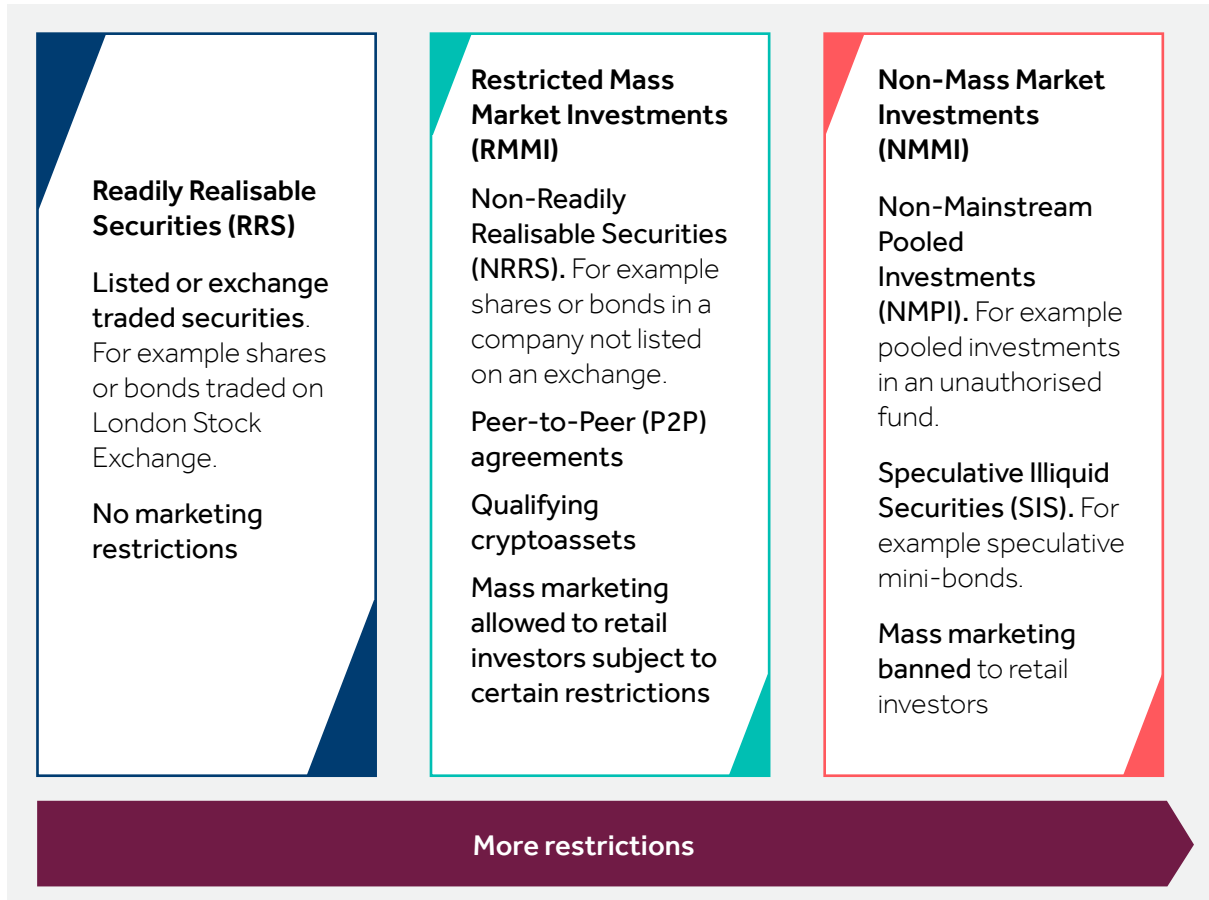
- 2.1** This chapter provides a summary of feedback we received relating to broadening the distribution of the LTAF to retail investors in a similar way to our RMMI regime. We set out our responses to the issues raised, including areas where we are changing the proposed rules in response to feedback.

## Distribution categorisation of the LTAF

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- 2.2** At the time the LTAF was being developed, the FCA was developing the new distribution regime for high-risk investments. It became clear that there was merit in aligning certain fund distribution rules with the high-risk investment categories, rather than develop a separate structure to accommodate funds that were riskier and more complex than mass-market retail investment funds but may be suitable for distribution wider than professional investment funds.
- 2.3** The LTAF was therefore initially launched as a Non-Mainstream Pooled Investment (NMPI). This 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.
- 2.4** Our view is that the NMPI rules are not appropriate for the LTAF in the long term, as it is an FCA-authorised fund that has to adhere to stricter requirements compared to the QIS. The LTAF must employ a prudent spread of risk, taking into account the investment objectives, policy and strategy of the LTAF; has stronger governance / disclosure rules than a QIS; and can only be launched and managed by a full-scope UK Authorised Investment Fund Manager (AIFM). On that basis, it should not have the same level of restrictions as a QIS.
- 2.5** Subsequent to the creation of the LTAF regime, the publication of PS 22/10 (Strengthening our financial promotion rules for high-risk investments) restructured the regime for marketing high-risk investments to retail investors into three categories, as shown in Figure 1 below.

**Figure 1: Financial Promotion product categories**



- 2.6** We therefore consulted in CP 22/14 to recategorise the LTAF to become a Restricted Mass Market Investment (RMMI) in line with PS 22/10. This was identified as the most suitable category for the LTAF given the extra protections afforded by its fund structure. For reference, the Undertakings for Collective Investment in Transferable Securities (UCITS) regime aligns with the Readily Realisable Securities (RRS) category.
- 2.7** Recategorisation to RMMI means that firms mass marketing LTAFs to retail investors must provide risk warnings and summaries, conduct an appropriateness assessment for all retail investors, and require unadvised investors to confirm that they have not invested more than 10% of their investable assets in RMMIs. This should reduce the chance of investors investing without a sound understanding of the risks.
- 2.8** Due to the protections built into the LTAF, we therefore did not propose requiring the same 24-hour cooling off period that applies to other RMMI products.

**2.9** We asked:

**Q3:** *Do you agree that the LTAF should be recategorised as a RMMI (as per PS22/10), from its previous category as NMPI, thus broadening retail access to include restricted investors?*

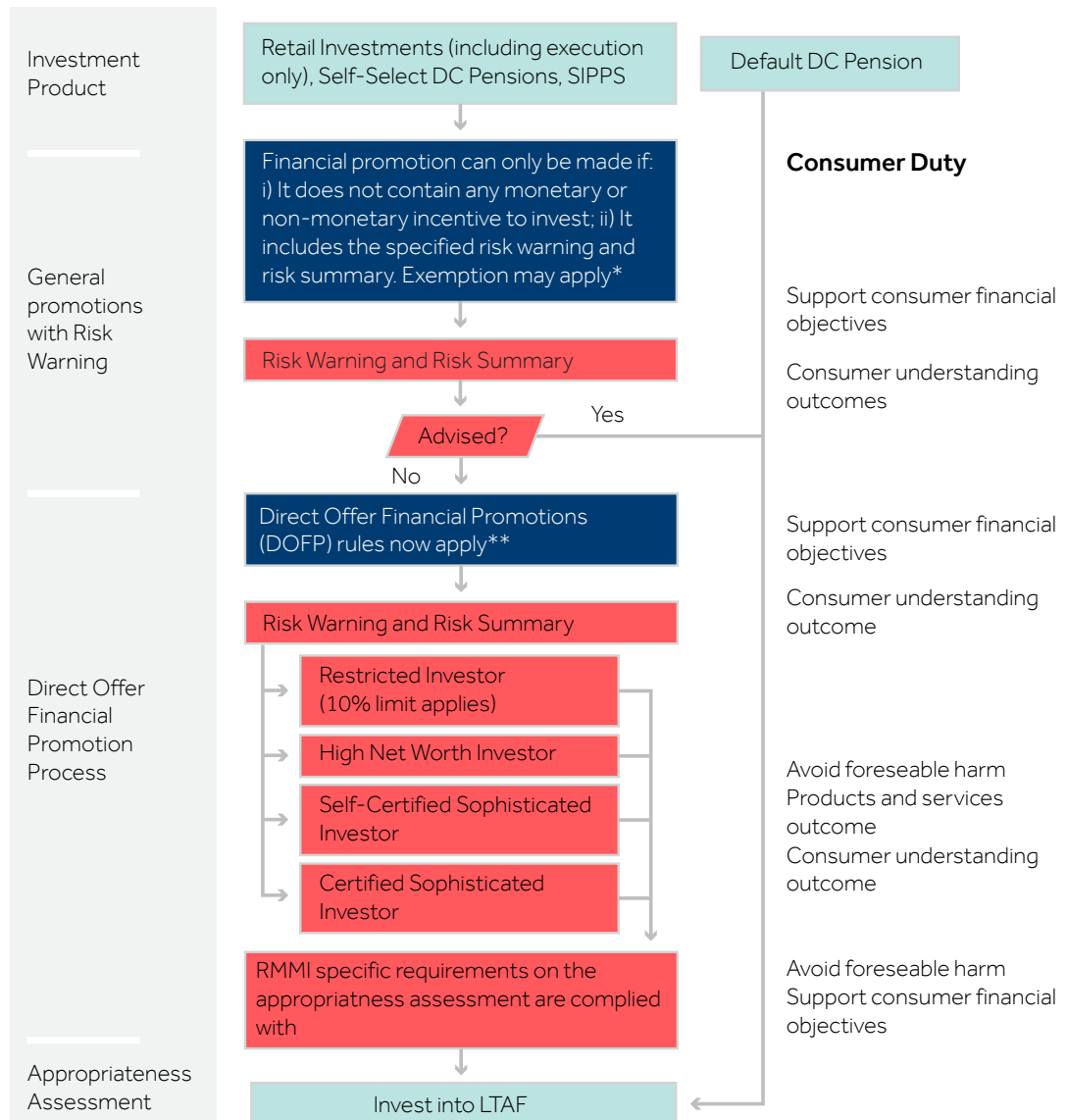
- 2.10** Respondents were mostly supportive with the proposal to recategorise units in LTAFs as a RMMI, with some suggestions to improve functionality of the LTAF within the RMMI regime.
- 2.11** Some respondents noted that recategorisation to RMMI could serve to increase retail investor uptake of the LTAF, as the complexity of the NMPI framework would likely disincentivise investors.
- 2.12** One respondent said that RMMI classification would allow the identification of target marketing, drawing the attention of consumers to appropriate target funds. Another respondent, although supportive of the change, noted that manufacturers and distributors would have to develop new operational and compliance processes to comply with the RMMI requirements to facilitate wider retail distribution.

### Our response

We have taken account of the feedback received and are finalising the rules and guidance generally as consulted in CP22/14. We will recategorise a unit in an LTAF as an RMMI from its current category as an NMPI and NMMI. This means that distribution will be extended so that the LTAF can be promoted to mass market retail investors.

Recategorisation to RMMI means that firms' mass-marketing LTAFs to retail investors must provide risk warnings and summaries, conduct an appropriateness assessment for all retail investors, and obtain confirmation from unadvised restricted retail investors that they have not invested, and do not intend to invest, more than 10% of their net assets in RMMIs. This should reduce the chance of investors investing without a strong understanding of the risks.

**Figure 2: Retail consumer journey and the Consumer Duty**



\*Financial Promotions Order exemptions:

\*\* DOFP will apply in almost all cases where the investor is un-advised

The Consumer Duty requires firms to act to deliver good outcomes for retail customers. The Duty applies throughout the consumer journey and includes obligations for firms to:

- Act in good faith: This is defined as a standard of conduct characterised by honesty, fair and open dealing and acting consistently with the reasonable expectations of retail customers.
- Avoid causing foreseeable harm: a firm should reasonably believe a customer understands and accepts inherent risks in a product (such as investment risk). Neither this rule, nor the Duty overall, mean that customers can or will be protected from all harm, such as where it was not reasonably foreseeable or where the customer understood and accepted risk inherent in the product. However, a firm could cause foreseeable harm through its action or by failing to act either in its direct relationship with a customer or through its role in the distribution chain.

- Enable and support retail customers to pursue their financial objectives: The actions a firm should take will be determined by what is within the firm's control, based on their role and knowledge of the customer. For example, an advisory firm should understand more about the individual objectives of the customer and would need to act on that knowledge.

These and other rules relate to specific outcomes we want to see under the Consumer Duty. These represent key elements of the firm-consumer relationship which are instrumental in helping to drive good outcomes and requirements for customers. These outcomes include:

- Products and services outcome: Consumers are sold and receive products and services that have been designed to meet their needs, characteristics and objectives leading to a reduction in the number of upheld complaints about products and services not working as expected. This outcome is supported by adherence to the client categorisation process, application of the 10% rule for restricted investors, protections against over-exposure for pensions investors, appropriateness and suitability rules, and the classification as a non-standard asset in SIPPs.
- Consumer understanding outcome: Consumers increase their confidence in financial services markets and are equipped with the right information to make effective, timely and properly informed decisions about their products and services. This outcome is supported by clear and accurate risk warnings/ appropriateness assessment, and the notification of illiquidity as pensions investors in the LTAF approach retirement.
- Fair value: LTAF distributors have to consider whether the costs involved in managing and distributing the fund are consistent with the product providing fair value to retail customers. AFMs of LTAFs are subject to the assessment of value rules in COLL 15.7, which require them to conduct an assessment at least annually of whether the payments out of the scheme are justified in the context of the overall value delivered to unitholders.
- Consumer support: LTAFs may have complex features which require consumers to take action at a particular point in the lifecycle of the product. This will likely mainly apply where a retail consumer engages directly with a firm, or vice versa. It will also be important that consumers looking to exit their investment in an LTAF are supported to ensure they understand the dealing process. Firms are required to consider the needs, characteristics and objectives of their customers – including those with characteristics of vulnerability – and how they behave, at every stage of the customer journey.

As well as acting to deliver good customer outcomes, firms will need to understand and evidence whether those outcomes are being met. This sets higher expectations of firms in avoiding foreseeable harm and supporting retail customers to pursue their financial objectives.

## Risk Warning and Risk Summary

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- 2.13** We consulted on adopting the principle of an LTAF-specific pop-up risk warning and risk summary, as defined by PS 22/10. This provided a template for the risk information summary to be displayed for the LTAF and was informed by that used in the RMMI behavioural testing.
- 2.14** Though respondents were generally supportive of the concept, many respondents expressed concern that the existing wording overemphasised investment risk as opposed to liquidity risk and did not reflect the likely diversity in LTAF risk profiles. We consulted on a draft warning that stated that the LTAF is a high-risk investment, which was in line with the wording used in the PS 22/10 rules for other RMMI products. The risk summary text also included specific references to investment horizon, liquidity and redemption.
- 2.15** We asked:
- 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.*
- 2.16** Most respondents agreed with the need for a clear, concise risk warning when distributing the LTAF to retail investors. They generally agreed that the same wording should also apply to the personalised risk warning that is provided to prospective investors later in the consumer journey, adjusted for the inclusion of the client's name in the text. However, one respondent also stated that there was a risk that simplifying the language of the risk warning could result in a risk warning that failed to communicate the precise risks that investors face.
- 2.17** Numerous respondents noted that the proposed risk warning conflated the risks arising from the illiquidity of underlying assets in LTAF portfolios with the risk of poor LTAF investment performance. Several of these respondents suggested that we should change the risk warning wording by placing greater emphasis on the illiquid nature of the investment, while still making the investment risk clear.
- 2.18** Some respondents suggested that the risk warning should be modifiable on a case-by-case basis. This would allow the risk warning to be aligned with the level of investment risk presented by a particular LTAF. One respondent said that a modifiable risk warning would also mean that investors were able to compare levels of investment risk between different LTAF portfolios.
- 2.19** There was some disagreement over the level of investment risk expressed in the risk warning. A handful of stakeholders felt the wording of the risk warning and risk summary was excessively negative, as it implied that LTAFs would not make a return. Conversely, a few said that the risk of investors losing some, or all, of the money they invest in LTAFs needed to be mentioned more explicitly.
- 2.20** Others commented that the implications of a long notice period should be signposted more clearly. One participant mentioned that investors in the LTAF should be aware that



when they want to access their savings, they would not be able to do so for a long time. Another felt that the length of the notice period, and the potential for redemptions to be deferred, should also be highlighted in the risk warning.

- 2.21** Some respondents did not feel that it was accurate to say that LTAFs would only make infrequent payments of income. Several noted that, depending on the composition of an LTAF's portfolio, some LTAFs would make regular payments to investors, including in the first year of investment.
- 2.22** A small number of respondents raised the importance of conducting ongoing testing of the impact that the risk warning had on the behaviour of LTAF investors. One respondent said that a potential investor in an LTAF should not be able to follow a 'click-through' process, where they are able to invest in an LTAF without reading the risk warning.

### Our response

The rules provide that a financial promotion must not contain any design feature which has the intent or effect of reducing the visibility of the risk warning/summary. We also expect firms to take account of the latest version of the international Web Content Accessibility Guidelines (WCAG) accessibility standard ([here](#)) when designing how the risk warning will be displayed.

Firms should ensure that the whole of the promotion is clear, fair and not misleading. The risk warning must always feature within the financial promotion in line with the relevant prominence requirements, no matter what medium is used. If the promotion is communicated over a non-digital medium (e.g.: in print), the risk warning must be provided in the same medium (if durable), unless the medium of communication means that isn't possible (in which case a manner appropriate to the medium should be used instead).

Upon reflection, we agree with many respondents that the draft risk warning may have overemphasised investment risk over liquidity risk and could mislead potential LTAF investors. As consulted, the risk warning stated:

***"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."***

The risk warning as consulted emphasised protection against poor performance as the main risk driver. High risk can easily be thought by retail investors as being driven only by investment risk, and respondent feedback suggested that referencing poor performance in the same sentence could imply a higher level of investment risk than may actually be the case. The new wording moves the references to liquidity up so that both liquidity and investment risk are seen as drivers of high risk.

The finalised risk warning is now:

***“This is a high-risk investment, and assets may take a long time to buy and sell. Only invest if you can wait (possibly several years) to get your money back. You do not have protection against poor performance.”***

The risk summary template wording aligns with our proposed guidance for the LTAF appropriateness test.

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

***“This is a high-risk investment, so only invest if you can wait to get your money back.”***

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.”***

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

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## **Risk summary template**

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?

**You should be ready to invest for the long term and, during this time, the value of your investment may go up or down. You may lose money on your investment.**

- Assets in this fund may take a long time to buy and sell.

Long Term Asset Funds (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.

- 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 if it is a business day, or else the next business day after.
- Once your redemption request has been approved, you cannot cancel your request.

### **3. It will take a long time to make profits**

- If the assets the LTAF invests in are successful, it may still take a long time to get your money back and make a profit.
- You should not expect to get your money back as payments of income [unless the LTAF includes payments of income as an investment objective].

### **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](#).
- Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA regulated firm, FOS may be able to consider it. Learn more about FOS protection [here](#).

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The firm should provide the above risk warning and summary, as well as any other risk information specific to their business model as per COBS 4.12A, COBS 4.5.2R, COBS 4.5A.3UK and COBS 4 Annex 1R.

With regard to the flexibility of the risk summary's wording, the rules we consulted upon require firms to adapt the risk summary to reflect the characteristics of the relevant LTAF, particularly the dealing arrangements for the LTAF and the applicable notice period. In the final rules, we have clarified how these rules apply.

A firm communicating a risk summary relating to an LTAF will be required to adapt it to reflect the characteristics of the relevant LTAF, particularly its dealing arrangements and the applicable notice period. Other changes may also be appropriate. The firm will need to have a valid reason for each amendment (adapting the risk summary to comply with the relevant rules will constitute a valid reason), make a record of each amendment and the reason for it, ensure that any alternative or additional text is in plain English and ensure the amended risk summary does not take longer than around 2 minutes to read.

Preventing click-through: Behavioural testing ([here](#)) as a result of DP 21/1 ([here](#)) was used to develop the pop-up and personalised risk warning

format. This format includes prominent, well summarised risk information which significantly improves consumer understanding of key investment risks. Behavioural testing also found that making consumers confirm that they have read the risk summary actually made the intervention less effective, which is why we didn't end up requiring this. The final format referenced above, took the behavioural testing into account, to be the most effective way in getting consumers to click on the full risk warning.

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## Cooling off periods

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**2.23** PS22/10 requires a cooling off period for RMMI products such as peer-to-peer lending and qualifying crypto-assets. Cooling off periods are intended to protect investors that may have made a rushed decision to invest. No matter how carefully a potential investor carries out their research, there is always a risk of making a mistake and choosing an inappropriate investment. This risk could be exacerbated in the excitement of investing.

**2.24** In CP22/10, we proposed not requiring the 24-hour cooling off period in the LTAF's consumer journey. 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, which will slow down the consumer journey, allowing sufficient time to reconsider investing. We asked:

**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?*

**2.25** Many respondents agreed with the proposal that a cooling off period is not needed. They considered that as the LTAF is a product with significant inherent protections, the distribution protections proposed for retail LTAF investors (as consulted) are sufficient protection without the need for a cooling off period. They felt that an additional 24-hour delay for a cooling off period would be complicated to manage and not add significantly more protection. Many other RMMI products (such as Peer-to-Peer lending and qualifying cryptoassets) are not authorised products and in their case, a cooling off period is a useful protection against a hasty investment decision.

**2.26** Some respondents disagreed and felt that the illiquid nature of the investment meant that a cooling off period was necessary. They suggested there was a risk that consumers may commit to investing in a particular LTAF without establishing if it would be a good investment for them. Others said that there had not been a convincing argument made for omitting the cooling off period. They said that the lack of a cooling off period left little time for retail investors to reverse a decision to invest in LTAFs, given the redemption terms and dealing frequency.

## Our response

We will not require a 24-hour cooling off period for LTAFs, unlike other products in the RMMI category. This is in line with our approach for other authorised funds.

Unlike many other RMMI products, the LTAF is an authorised fund that must maintain a prudent spread of risk, that can only be manufactured by a full scope experienced alternative investment fund manager (AIFM) that is experienced in all the asset classes and strategies into which it invests. This also means that the number of firms that are capable of manufacturing LTAFs is limited in numbers and they and their products will be well-governed. The key question will therefore be whether a particular LTAF is the right product for a particular investor, and that it is part of a diversified portfolio. This is addressed by the client categorisation (including 10% allocation limit for restricted investors) process and appropriateness assessment.

Additionally, prospective unadvised investors will have to take an appropriateness test prior to investing in their first LTAF. They will therefore be aware of the general risks from this type of product before investing. We consider that this is a balanced view on protections vs. friction, given the LTAF is an authorised fund with robust governance requirements.

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## Protections for retail fund investors

**2.27** We consulted on applying additional investor protection rules relating to retail funds to ensure retail investors are treated fairly and given adequate and timely information. These comprised detailed rules relating to alterations to schemes, notices to unitholders and change events for feeder LTAFs, unitholder meetings, maintaining a register of unitholders, payments and suspension of dealings in units. The intention was to apply these rules only where the funds were made available to retail investors.

**2.28** We asked:

**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?*

**2.29** Many respondents agree that the retail fund rules should be applied to LTAFs with retail investors, though some of the draft rules in the CP would have applied to all LTAFs, irrespective of the investor base. Some respondents felt that blanket application of the rules was overly prescriptive for LTAFs targeted at HNWI, certified and self-certified

sophisticated and professional investors only (“professional LTAFs”). They argued that as the additional protections are for retail investors, there should be a distinction between retail LTAFs, and the additional retail fund rules should not apply to professional LTAFs.

- 2.30** One respondent felt that it was better for the manager to decide the best way to effect changes to the scheme, given the overarching duty on the manager to act in the best interest of investors.
- 2.31** Most respondents felt that the LTAF regime did not require additional protections beyond those already in place. One respondent noted that the incoming Consumer Duty framework would offer additional protection and therefore the retail fund rules as consulted were not required.
- 2.32** One respondent suggested that guidance on limited redemption arrangements in COLL 4.3.5G (2)(f) should be disapplied. They felt that key information such as dealing frequency would be better included in the prospectus to the LTAF as opposed to the instruments of incorporation.
- 2.33** A handful of stakeholders suggested that the depositary should not have all scheme assets registered to its name. Some of these mentioned that the requirements set out in COLL 15.7.7R could make depositaries less willing to act for LTAFs.

### Our response

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 proposed to extend some of these rules to LTAFs that accept investment from consumers classified as restricted investors. These included rules on fundamental or significant changes to the fund, procedures for suspension of dealing, the conduct of unitholder meetings and permitted types of payments out of the fund to LTAFs that accept investment from consumers classified as restricted investors. Our view remains unchanged that these rules are an important protection for retail investors, and that retail investors should have similar protections, where possible, when investing in an LTAF compared to when investing in a UCITS or a NURS. We consider that COLL protections remain important in this context and the Duty provides overarching protection focusing on the delivery of good customer outcomes or something.

However, as drafted, some of these rules were extended to all LTAFs, and much of the concerns raised by respondents related to the application of these rules to professional LTAFs. This was not our policy intent, and we have amended the rules, so they do not apply to LTAFs (or class of units) that are intended only for professional investors, or retail clients who are certified high net worth, certified sophisticated and self-certified sophisticated investors. The final rules refer to such LTAF investors as ‘limited protection LTAF investors’ and we will use the existing definitions in the FCA Handbook Glossary to cover these three categories of retail

client (certified high net worth, certified sophisticated and self-certified sophisticated investors). In the remainder of this response, LTAFs intended only for limited protection LTAF investors will be referred to as "limited protection LTAFs".

Given they have fewer investor protections compared to an LTAF that can be sold to all investors, it is essential to ensure that limited protection LTAFs are not sold to restricted and other mass market retail investors. With that in mind, we will require that AFMs take reasonable steps to ensure that restricted and other mass market retail investors do not become unitholders where the LTAF/class is intended only for limited protection LTAF investors.

The following rules will apply to all LTAFs that are not limited protection LTAFs:

- Fund changes: where the LTAF has at least one class available to retail investors and the change affects all classes, the 'retail' change process will be applied to all unitholders – this is to ensure equitable treatment, e.g.: all holders receive the same information at the same time. Where the change relates only to a class of limited protection investors in a 'mixed' fund, the 'non-retail' process can be applied.
- Unitholder meetings: as above, where there is at least one retail class and the proposal affects that class plus any other, the retail process will be followed for all relevant unitholders. If the proposal relates only to a limited protection class, the non-retail process may be followed.
- Register of unitholders for AUTs and ACSs: 'retail' and 'non-retail' rules apply at the scheme level.
- Fees and charges: 'retail' and 'non-retail' rules can apply at class level as appropriate, although COLL 15.8.15CR which specifies what payments may be recovered from the scheme property of an LTAF, and the associated guidance, apply to all LTAFs including limited protection LTAFs.
- Suspensions: rules on unitholder notifications apply to all classes.

Although we think it was the position in any case, we have amended the rules in COLL 15 to make clear that COLL 4.3.5G(2)(f) does not apply to LTAFs.

The issue with the depositary holding the title of all the schemes assets is a known issue, we are we are exploring this with industry and HM Treasury.

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## Direct Offer Financial Promotions

- 2.34** In CP 22/14, we proposed to adopt much of the Direct Offer Financial Promotion (DOFP) rules, as defined by PS 22/10 when applied to RMMI products. Classifying the LTAF as an RMMI means that LTAFs can generally be mass-marketed. PS22/10 provides detailed guidance to firms on how to apply the DOFP rules when moving beyond general, non-targeted mass marketing, towards targeting a specific unadvised prospective investor.

- 2.35** There are a number of methods by which a firm may meet the DOFP rules. However, generally as part of its on-boarding process the firm will obtain the name of prospective investors who wish to invest into an LTAF. The firm will again show the investor the risk warning (but this time personalised with the prospective investor's name) and risk summary.
- 2.36** The firm will 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.
- 2.37** As set out in PS22/10 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 necessary to conduct and complete the appropriateness 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.
- 2.38** Once these steps have been completed, the firm can then communicate 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

- 2.39** If the client is non-advised, the firm must conduct an appropriateness assessment in accordance with the rules in COBS 10 or COBS 10A. These rules require firms to consider whether the investor has the knowledge and experience to understand the risks involved in relation to the relevant investment. We proposed to apply the same additional provisions on how this appropriateness assessment can be conducted, as other high-risk investments (e.g.: restrictions on the ability of firms to re-assess appropriateness). We proposed 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 but will be subject to a suitability assessment.
- 2.40** Firms will need to consider the Consumer Duty (PRIN 2A.3 or PROD 3.2 for manufacturers, and likely PROD 3.3 for distributors) when manufacturing and distributing units in LTAFs. The AFM will need to carry out an appropriateness assessment 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 invest into the LTAF. This ensures the rules apply at the right point in the consumer journey. We asked:

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

- 2.41** Most respondents agreed that an appropriateness test is useful in ensuring non-advised retail investors have the right knowledge and experience in the relevant investment field and the specific LTAF.
- 2.42** Some respondents expressed concern that the proposed guidance on the appropriateness test may not align with the risk profile and expected income profile of some LTAFs (sections 3 and 5 of the draft test wording in COBS 10 Annex 3G), and that greater discretion in wording should be allowed.
- 2.43** **10% limit:** A few respondents felt it would be hard for asset managers to assess whether restricted retail investors had adhered to the 10% investible assets limit, as they are unlikely to have data on the client's entire portfolio. One respondent felt the 10% limit was arbitrary, while another stated that it should not be necessary once restricted investors had passed an appropriateness test and had understood the risks of the investment.
- 2.44** Others expressed concern that retail clients will be unfamiliar with assets held by LTAFs and it will be onerous to ensuring retail clients can make informed choices on LTAFs, with potential liability implications for firms.
- 2.45** One respondent representing the interests of consumers, argued that as LTAFs are highly illiquid products with high levels of idiosyncratic investment risk, self-certification (as a sophisticated investor) should not be permitted. They noted that the FCA's own evidence shows that too many investors are self-certifying as meeting the criteria of being a sophisticated investor when they do not meet the required criteria.

### Our response

We have made minor amendments to the personalised risk warning to remain aligned with the text changes to the general risk warning and risk as described in response to Question 4 above.

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 assets may take a long time to buy and sell. Only invest if you can wait (possibly several years) to get your money back. You do not have protection against poor performance."**

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.”**

This text must then link to a two-minute risk summary which 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, including tailoring the risk summary text to the dealing date, dealing frequency, notice period and other specifics of the LTAF.

**Appropriateness Assessment:** The appropriateness assessment requires a firm to assess whether the relevant product is appropriate for the client by determining whether the client has the necessary knowledge and experience to understand the risks involved in the product in question (in this case, the LTAF).

We take the view that an appropriateness assessment is the best means of ensuring that a potential investor has the knowledge and experience to understand the product, and this may help them make informed investment decisions. However, as with the risk summary, the questions in the appropriateness assessment should be aligned with the risk profile and expected income profile of its associated LTAF.

Firms should consider asking the client questions that cover, at least, the matters referenced in the relevant Annex to COBS 10. This is not set text; it is intended to give a non-exhaustive list of topics that firms should consider covering when preparing an appropriateness assessment. Firms should write the questions themselves, based on the list of topics, to reflect what they believe the consumer needs to understand before investing in that particular LTAF.

The text can be aligned to the characteristics of the particular LTAF or LTAFs for which the client is being assessed. These characteristics could include the risk, return and liquidity profiles, and the dealing and redemption terms.

**10% limit:** Though a restricted investor is primarily responsible for completing the restricted investor form (which includes the promise to adhere to 10% rule), firms should not allow them to invest more if they are made aware (via the info they hold/ collect) that the consumer has gone over this 10%. The Consumer Duty requires firms to act in good faith and avoid causing foreseeable harm, whilst aiming to provide products and services that have been designed to meet investors' needs, characteristics and objectives.

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## Funds of Alternative Investment Funds

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**2.46** We received feedback to CP21/12 on better enabling the NURS FAIF regime to invest into LTAFs. We asked:

**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?*

### Question 9 – Allowing FAIF a 35% exposure to a single LTAF

**2.47** We consulted on rules allowing LTAFs to be distributed via NURS FAIFs, but with allocation restrictions to prevent overexposure to a single LTAF, or multiple LTAFs as an asset type. Respondents were generally positive on the limit of no more than 35% of NAV into a single LTAF, as this was consistent with existing NURS FAIF rules.

**2.48** Others disagreed, saying that FAIFs must both benefit from diversification and be able to meet redemptions. Allowing investment of up to 35% of a FAIF's assets in one LTAF could reduce the diversification benefits.

### Question 10 – Allowing NURS FAIF a 50% total exposure into multiple LTAFs

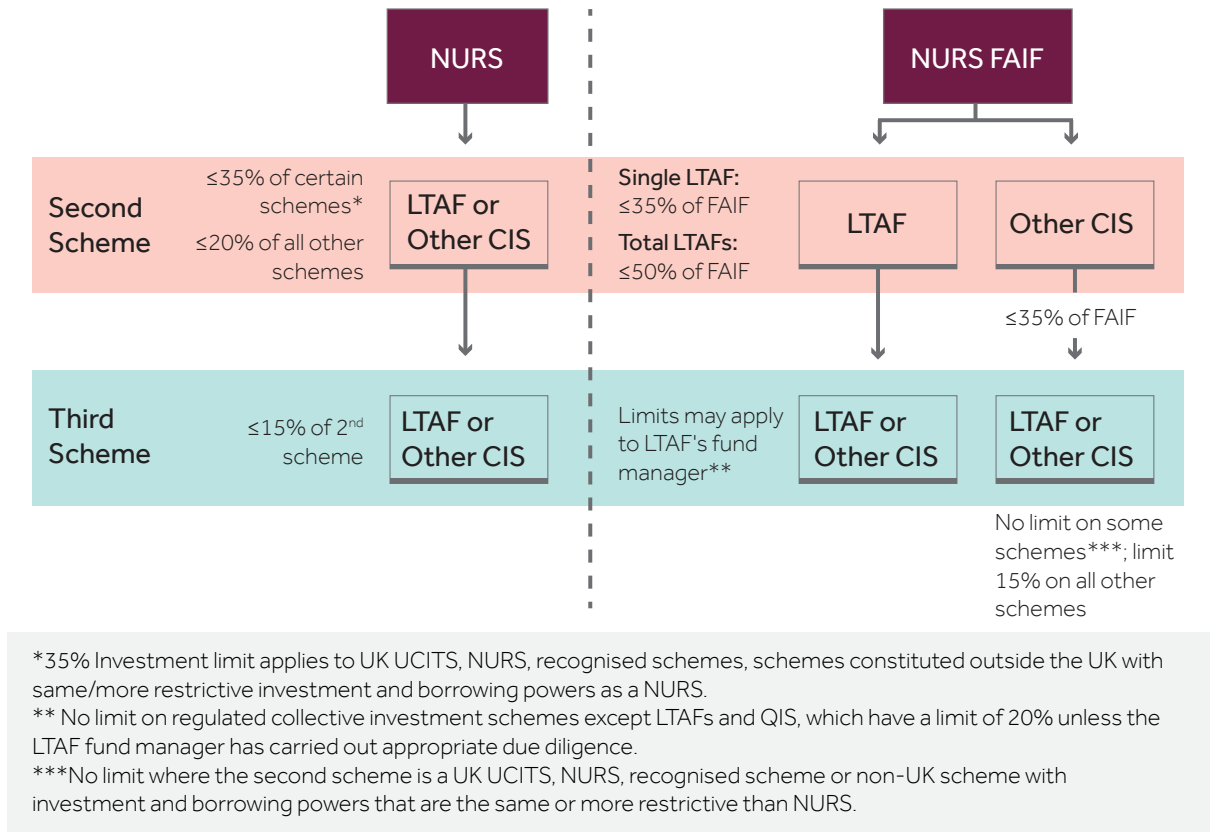
**2.49** However, some respondents opposed the multiple LTAF limit of 50% as this was not consistent with the existing NURS FAIF rules, which allow a NURS FAIF to invest more than 50% of NAV in inherently illiquid assets. However, a NURS FAIF with investment objectives to hold more than 50% in inherently illiquid assets or which has held them for at least three continuous months will need to comply with the rules for a Funds investing in Inherently Illiquid Assets (FIIA), unless it has limited redemption arrangements that reflect the time typically needed to sell, liquidate or close out the inherently illiquid assets in which the NURS invests.

**2.50** Some respondents argued that a hard 50% limit was not required, as the existing rules on limited redemption arrangements offer sufficient protection and should be permitted as an option for FAIFs holding more than 50% in LTAFs. This would allow for a diversified investment across several LTAFs. Others also requested that LTAF exposure should also be extended to non-FAIF NURS as well as for NURS FAIFs.

**2.51** Other respondents either agreed with the proposed 50% limit or agreed with an upper limit in general but did not specify a percentage. They agreed that a NURS FAIF with

a high exposure to LTAFs risks becoming a pathway to invest into LTAFs with fewer restrictions compared to investing directly into LTAFs.

**Figure 3: High level summary of rules as consulted on LTAF allocation limits for FAIFs**



### Question 11 – Due diligence rules

- 2.52** Most respondents agreed that LTAF due diligence rules in COLL 15.6.9R are comprehensive and relevant and therefore the broader NURS FAIF second scheme due diligence rules in COLL 5.7.9R can be switched off.
- 2.53** One respondent disagreed and argued that units in LTAFs are illiquid investments that will potentially change the performance characteristics of any NURS FAIF that invests in them. There may be some scope for a NURS FAIF to use information provided by the LTAF as part of its due diligence, for example where an independent auditor is used. However, the NURS FAIF should still satisfy itself that the appropriate rules have been followed.

### Other NURS issues

- 2.54** Some respondents requested that NURS that are not FAIFs also should also be able to invest in LTAFs that invest in other Collective Investment Schemes (CIS) above the 15% threshold. The rule as it stands could effectively prohibit a NURS with a multi-asset strategy from gaining exposure to long-term illiquid assets via LTAFs and miss the opportunity for greater diversification. Most LTAFs will unlikely satisfy the requirement

that they do not invest more than 15% (as set out in COLL 5.7.7R) of their assets in other collectives.

**2.55** Removing the 15% threshold for investing into schemes for NURS investing into LTAFs would mean that NURS rules would need to be amended to take into consideration the risks arising from circularity of investment (where second scheme or third scheme funds are invested into each other or the parent NURS FAIF), as well as the overall liquidity profile of the LTAFs and the NURS FAIF.

**2.56** It was proposed that these risks could be mitigated by applying the NURS FAIF rules, including the single LTAF allocation limit, the limited redemption arrangements for allocation into LTAFs over 50%, and ensuring ongoing due diligence on the second and third schemes. It was suggested that any concerns over circularity of investment could be managed in other ways to ensure investor protection.

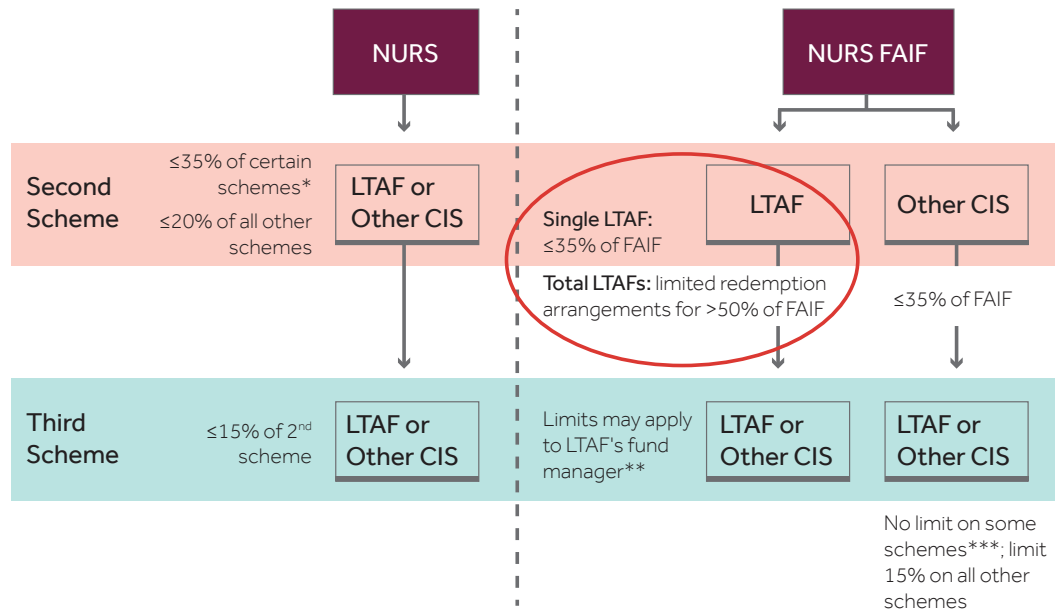
### Our response

Many of the LTAF's investor protection rules (such as the risk warning and summary, client categorisation, allocation limits and appropriateness assessment) do not apply to NURS FAIFs. We are of the view that this loss of investor protection against investment and liquidity risks is an acceptable level of risk for NURS FAIF investors up to a certain point, however that risk becomes increasingly unacceptable as the NURS FAIF's exposure to the LTAF (and other inherently illiquid assets for that matter) increases.

After careful consideration of the risks, and as consulted, we intend to enable a NURS FAIF to invest up to a maximum of 35% in a single LTAF.

However, the issue of the proposed 50% limit on multiple LTAFs is more balanced. Many respondents argued for the removal of this cap, on the basis that a NURS FAIF can already invest up to 100% of its NAV into other inherently illiquid assets and therefore there is no reason to have increased restrictions for LTAFs. After consideration of the feedback, we broadly agree with this position. However, to prevent inherent liquidity mismatch, we are requiring any NURS FAIF holding more than 50% in LTAFs to have limited redemption arrangements.

**Figure 4: High level summary of LTAF allocation limits for fund-of-funds**



\*35% Investment limit applies to UK UCITS, NURS, recognised schemes, schemes constituted outside the UK with same/more restrictive investment and borrowing powers as a NURS.  
 \*\* No limit on regulated collective investment schemes except LTAFs and QIS, which have a limit of 20% unless the LTAF fund manager has carried out appropriate due diligence.  
 \*\*\*No limit where the second scheme is a UK UCITS, NURS, recognised scheme or non-UK scheme with investment and borrowing powers that are the same or more restrictive than NURS.

All NURS FAIFs, regardless of the level of their holdings in LTAFs, will need to ensure the LTAFs' liquidity, redemption policies and dealing arrangements enable the FAIF to meet its redemption obligations (COLL 5.7.7R(3)). In addition, the AFM must ensure that the NURS FAIF's holdings in LTAFs are sufficiently diversified to allow the FAIF to meet its redemption obligations. In assessing whether the NURS FAIF can meet its redemption obligations, the AFM should also have regard to the other assets in which the FAIF is invested, particularly where those assets are inherently illiquid. In practice, the NURS FAIF may need to operate limited redemption arrangements in order to meet its redemption obligations even if less than 50% of the FAIF's property is invested in LTAFs.

In terms of due diligence requirements, as consulted, we intend not to apply COLL 5.7.9R(1) and (2) for FAIFs investing into units of LTAFs, given the level of investor protection by the LTAF requirements.

NURS that is not a FAIF: Given the amendments required to NURS FAIF rules to mitigate the risk of liquidity mismatch and provide some protection to ordinary retail investors who will not benefit from the protective measures afforded to ordinary retail investors investing directly in an LTAF, we consider that it would take the addition of even greater protections to allow a NURS to invest more than 20% of its scheme property in LTAFs. With that in mind, we will retain the position as per the consultation, and are not changing the rules on illiquid assets or second scheme for the NURS.

## Other clarifications and amendments to LTAF rules

- 2.57 Third-party valuation rules:** We received feedback that the rule wording makes valuers uncomfortable about the valuation basis they are supposed to use. Valuers consider that they need to make a judgement on consistency between investments and liquidity/ redemption profile. We have therefore modified this rule in line with valuation requirements for the NURS, which is known to be workable for valuers.
- 2.58 Adviser education:** Two stakeholders mentioned that LTAFs will be new products which may not be familiar to all advisers, they may be reluctant to advise on make LTAFs available without further guidance from the FCA. Respondents noted that that the Productive Finance Working Group produced education material ([here](#)) on illiquid assets for DC pensions and suggested this initiative is also expanded to advisers.
- 2.59 Investor education:** A few stakeholders felt that retail investors in the LTAF should be required to receive further specialist education before investing in an LTAF. One stakeholder went further, stating that RMMI recategorisation would not be appropriate until the LTAF had been marketed to a more sophisticated investor base first.
- 2.60 Liquidity mismatches and notice periods:** Two respondents expressed concern that liquidity mismatches could arise as a result of "optimism bias" of fund managers towards the LTAF's assets. They felt that introduction of the Consumer Duty would not necessarily solve this issue. One respondent stressed that investors in LTAFs should be confident that the notice periods and liquidity management tools are realistic and aligned to the LTAF's investment strategy. They felt that LTAFs must set notice periods which are long enough to ensure that the most illiquid assets can be sold in a single market event, irrespective of market conditions.
- 2.61 Suspension of dealing:** One respondent noted that current LTAF rules does not stipulate that dealing in the fund must be suspended if there is material uncertainty about the value of a large part of the assets in the fund.
- 2.62 Borrowing to meet redemptions:** One respondent considered that borrowing to meet redemptions raises costs to investors but doesn't improve underlying structural liquidity issues in the LTAF and should be banned.
- 2.63 Lock-in rules:** One respondent remarked that retail-distributed LTAFs must not be allowed to impose lock-in periods where investors are not permitted to redeem funds for a period longer than the standard notice period.
- 2.64 Deferrals:** One respondent said that deferrals should not be used as a liquidity management tool except in stressed market conditions. They felt that deferrals should not be used to manage redemptions, in cases of persistent or frequent redemptions.

## Our response

**Third-party valuation rules:** We don't consider the policy intent between the LTAF and NURS rules with relation to third-party valuers to be materially different and so will align the third-party valuer rule with the equivalent NURS rule rather than leave uncertainty about our expectations. We will therefore modify the rules to align to the NURS text. This would change the text in COLL 15.6.18R (2)(c)(ii) from "...a timeframe which is consistent with the LTAF's liquidity profile and redemption policy", to the wording "...being disposed of reasonably quickly at that valuation;".

**Liquidity Mismatch and notice periods:** The LTAFs prospectus is required to describe the LTAF's liquidity risk management processes, including how an investor's ability to redeem units in the LTAF may be affected in exceptional circumstances, and the circumstances in which the redemption of units may be suspended. Additionally, the LTAF's annual report requires a detailed liquidity assessment, thus ensuring that the alignment remains thereafter. Lastly, full-scope AIFM should be sufficiently experienced in the investment strategies of its LTAF's, which would typically include divestment during stressed conditions.

**Adviser and Investor Education:** Specific to the LTAF regime, the risk warning/ summary and the appropriateness assessment are intended to ensure investors understand the product before investing. Additionally, firms and advisers will need to meet the consumer understanding outcome under the Consumer Duty, which requires firms to ensure their communications equip customers to make decisions that are effective, timely and properly informed.

**Suspension of dealing:** Suspension is permitted due to exceptional circumstances (see COLL 15.10.3) when it is in the interests of existing or potential unitholders, to do so. This is considered sufficiently flexible to cover most cases where suspension might be necessary.

**Borrowing to meet redemptions:** As set out in the existing rules, the manager will have to consider an appropriate level of borrowing for the investment strategy. We do not think it is necessary at this stage to provide further detail as to how borrowing should be defined under our rules.

**Lock-in rules:** After consideration, we remain with our view that lock-in rules are an effective means of managing liquidity, especially given the potentially long lead times required to source investment opportunities and allocate capital.

**Deferrals:** We consider that tools such as deferrals can be used as a liquidity management tool and should not be put in the same category as suspensions.



## Chapter 3

# Broadening pension scheme distribution

- 3.1** This chapter summarises the feedback we received on proposals to broaden pension scheme coverage. We set out our response to the issues raised, including how we are changing the rules in response to feedback.

## Pension scheme coverage

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### Extending distribution beyond defaults in qualifying schemes

- 3.2** DC pension savers can currently only access exposure to the LTAF in the default arrangement of qualifying Defined Contribution (DC) pension schemes (those used for auto enrolment). We proposed broadening access to members of DC pension savers and unit-linked policyholders more widely.
- 3.3** For self-select investors in qualifying schemes, we proposed protections that limit savers from 'over-exposing themselves' to the LTAF-linked fund, suggesting that the exposure of these investors in qualifying schemes could be linked to the level of exposure taken by the default arrangement of the same qualifying scheme.
- 3.4** We also proposed to extend the distribution of the LTAF 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. However, we welcomed suggestions on how to expand distribution beyond advised investors outside of qualifying schemes while ensuring a sufficient level of consumer protection.
- 3.5** We asked:

**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?*

### Feedback received

- 3.6** Respondents were generally supportive of extending access to the LTAF, noting the opportunity for consumers to potentially realise higher returns while increasing investment in productive finance. However, a number of respondents also suggested expanding access beyond our proposals, highlighting what they perceived as inconsistency with the access for retail investors through the RMMI framework. One

respondent disagreed with expanding access altogether, stating that the LTAF is an untested product.

- 3.7** A number of respondents disagreed with linking self-select LTAF investment exposure to the exposure of the default. Respondents felt that individuals should be permitted to pursue their own investment objectives and suggested that cost constraints within default arrangements could lead to low illiquid allocations compared with those possible outside of a pension wrapper through the RMMI framework. A number of different suggestions were made on what the exposure limit should be, including alignment with the RMMI framework at 10% and multiples of the exposure deemed appropriate within the default arrangement of the same qualifying scheme.
- 3.8** Countering this, a small number of respondents highlighted the higher risk profile of the LTAF, with one supporting the proposal to link the self-select exposure to the default exposure.
- 3.9** Several respondents stated that distribution should also be expanded more widely to include non-advised investors in long-term unit-linked products, highlighting an inconsistency with the ability of non-advised consumers to invest in LTAFs through the RMMI framework but not through a unit-linked wrapper. They suggested that a 10% exposure limit be applied to such investors to align with the RMMI framework. Other respondents supported the need for robust consumer protections with two stating that the requirement for professional advice should remain in place.
- 3.10** One industry respondent suggested that consumers with LTAFs in self-select pensions should receive a notification alerting them to the illiquid nature of their holdings as they approach retirement age and highlighting that they may take some time to sell.
- 3.11** It was also noted that there were broader unresolved cultural and operational issues impacting investment in illiquid assets by pension schemes. This included the current operation of platform ecosystems, which are tailored to daily priced and daily dealing products, and attitudes towards costs and value for money.

### Our response

We are proceeding with the extension of the LTAF beyond default arrangements of qualifying DC pension schemes, with the changes set out below.

**Self-select investors:** Having considered the feedback and reviewed the draft rule, we agree that linking the self-select exposure to that of the default arrangement potentially restricts the ability of self-select investors to pursue their own objectives and is inconsistent with the RMMI framework. So, we have changed the exposure limit for self-select investors to be the higher of either 10% of the consumer's pension value within that scheme, or the exposure deemed appropriate within the default arrangement of the same qualifying scheme when investing in the same LTAF.

The proposed change reflects the ability of pensions to better manage liquidity risk, ensures greater consistency with retail investors and allows for divergence from the default arrangement while ensuring sufficient protections for self-select investors. However, this is contingent on the insurer having sufficient oversight to ensure that the investment is suitable and within the exposure thresholds.

**Non-advised investors:** In response to industry feedback, we have expanded distribution beyond our initial proposals to include non-advised investors in long term unit-linked products, including non-workplace and non-qualifying workplace schemes. To ensure sufficient consumer protection, we have put in place additional requirements on the insurer to ensure that such investors have received an appropriateness assessment in accordance with COBS 10 or COBS 10A. Those undertaking the appropriateness assessment have the flexibility to choose which form of assessment is most suitable to them - based on their expertise and experience - and the policyholder. There is also sufficient flexibility on who is permitted to undertake such an assessment to ensure that such requirements are possible to meet in a proportionate way in the context of non-qualifying workplace schemes.

Outside of qualifying schemes, we are also limiting the quantitative exposure a non-advised unit-linked investor can have to the LTAF. Where the investor is the holder of a unit-linked policy, this limit will be no greater than 10% of the person's exposure to the linked assets in the policy. Where the investor is not the holder of the policy but nevertheless is a beneficiary and bears the investment risk then it will be 10% of their individual exposure to linked assets in the policy. Within a pension scheme (other than a qualifying scheme) invested in one or more unit-linked policies, where the member investor is a beneficiary that bears the investment risk, the 10% limit takes into account all their exposure to LTAFs under that scheme (such as in any of the unit-linked policies in which they are a beneficiary and bear the investment risk), and is applied as against the total value of the individual's benefits under that scheme.

These quantitative assessments will need to be done as part of the overall appropriateness assessment and be done at the point of investment (taking into account expected contributions), but firms will also need some ongoing assessment to ensure the investor's exposure does not become materially inconsistent with these threshold limits.

These requirements can be found in COBS 21.3.16R, COBS 21.3.16AR, COBS 21.3.16BG and COBS 21.3.16CG.

We have responded to industry feedback from the initial consultation by expanding access to non-advised investors, providing an avenue for a range of investors to benefit from exposure to the LTAF, in a way that ensures consumer protection. We would appreciate feedback on how this is working in practice.

**Exposure limit - our expectations:** The 10% exposure limit at investment, for both self-select investors in qualifying schemes and non-

advised investors in long-term unit-linked products outside of qualifying pension schemes, is intended to protect against over-exposure to the LTAF. We recognise that the asset allocation may fluctuate after the point of investment, and we do not consider that divestment from the LTAF if the allocation subsequently exceeds 10% would be necessary, especially where this would lead to poor consumer outcomes. However, we expect future investment (including monthly contributions) to be adjusted accordingly. We also expect the insurer to have appropriate arrangements in place to identify when the exposure risks becoming materially inconsistent with the thresholds. Where this occurs, we expect the insurer to take appropriate action, such as communicating the risks of such exposure to the consumer and the options available to them. See further guidance in COBS 21.3.18BG.

**Notification of illiquidity:** We agree that the notification of illiquidity when approaching retirement is an important protection when distributing the LTAF to pension savers outside of a qualifying scheme's default arrangement. The illiquid nature of investments on approach to retirement is a key risk factor and thus should be included in communications to consumers going forward under our existing COBS 19.4 and COBS 19.7 rules as well as the higher expectations set out in the Consumer Duty. This should align with existing communications required five years prior to the normal minimum pension age (currently 55). This notification should highlight that the assets may take longer to sell, identify other relevant risks that could impact the consumer when investigating their retirement options and allow the consumer to make informed decisions about how they plan to use their pension savings and whether they need to take any additional steps to manage their liquidity risk. We are not making a rule to this effect. We expect firms to exercise appropriate judgment when designing communications appropriate to their target audience.

**Cultural barriers:** We continue to work alongside delivery partners such as the Bank of England and HM Treasury (HMT) to address the residual cultural and operational barriers to enabling investment in illiquid assets, following from the Productive Finance Working Group, which reported in September 2021.

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## Giving equivalent status to other illiquid assets

- 3.12** The fund structure of 'linked funds' in insurance-based investments is limited to restrict exposure to certain assets to 35% through 'conditional permitted links'. The LTAF is not subject to this 35% limit within the default arrangement of a qualifying pensions scheme. This is because DC schemes can construct default arrangements from a number of funds, which could in the future include some 100% illiquid funds, as part of a wider diversified portfolio. We proposed to give equivalent status to other illiquid assets and the LTAF where the conditions for securing an appropriate degree of consumer protection can be met, thus removing the current 35% limit.

**3.13** We asked:

**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?*

### Feedback received

- 3.14** Two respondents highlighted that the proposal to remove the 35% cap on other illiquid assets – in line with the LTAF – within unit-linked funds did not appear in the draft rules. While there was general support for the policy, other respondents highlighted the need to ensure sufficient consumer protections were in place.
- 3.15** Another industry respondent noted that many long-term assets are structured as funds that would fall within the definition of unregulated collective investment schemes (“UCIS”). They suggested that the permitted links rules be amended to allow the use of such fund types using the same rules as for the LTAF.

#### Our response

Having reviewed the draft rules, the relevant rule change to remove the 35% cap on other illiquid assets – in line with the LTAF – within unit-linked funds was omitted in error from the instrument. We have amended the final rules so these illiquid assets would also be exempt (in addition to LTAF) from the exposure limit of limited asset classes, where appropriate consumer protection is in place and within a qualifying scheme’s default arrangement (COBS 21.3.19AR).

As consulted, we do not intend to extend the Conditional Permitted Links regime to include Unregulated Collective Investment Schemes (UCIS) given the lower consumer protections in force, including disclosure, liquidity, governance and redemption requirements.

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## Self-Invested Personal Pensions (SIPPs)

- 3.16** We proposed to classify the LTAF as a non-standard asset when used within a Self-Invested Pension Plan (SIPP). SIPPs administering non-standard assets are required to hold additional capital. To be classed as a standard asset, the investment must be realisable within 30 days. The LTAF has a 90-day notice period.

**3.17** We asked:

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

### Feedback received

- 3.18** Many respondents felt categorising LTAFs as a non-standard asset for SIPPs risked disincentivising SIPP operators from offering access to the LTAF, because it would impose higher capital requirements. One respondent thought the additional costs could be passed on to investors, thereby disincentivising investment.
- 3.19** Several respondents noted that SIPP investments were well aligned to the long time-horizon for LTAF investment. One respondent stated the LTAF should be classified as a standard asset given that it is considered an appropriate product for default schemes in DC arrangements.
- 3.20** Other respondents said that classifying a SIPP as a non-standard asset was an appropriate protection.

### Our response

We are proceeding with our proposal to classify the LTAF as a non-standard asset for SIPPs. Given the LTAF's 90-day notice period, we view this as a suitable additional protection for consumers.

SIPPs provide greater flexibility for pensions investors. We remind SIPP operators of their obligations as a 'provider' of a financial product or service. Operators should review requirements under the Consumer Duty, which sets a higher standard of consumer protection in retail financial markets and requires firms to act to deliver good customer outcomes. Our SIPP Operator Portfolio Letter (May 2023) and Finalised guidance for SIPP operators (October 2013) detail further requirements on due diligence, and ensuring the appropriateness of investments. Providers should also be aware that, in specific circumstances, the appropriateness and suitability requirements set out in COBS 10 will apply. This includes when a financial promotion is targeted directly towards consumers.

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## Chapter 4

# Access to the Financial Services Compensation Scheme

### What is the scope of FSCS?

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The Financial Services Compensation Scheme (FSCS) is the UK's statutory compensation scheme of last resort and is subject to rules written by both the FCA and the Prudential Regulatory Authority (PRA). FSCS's protection covers deposits, insurance provision and distribution, investment business, home finance advice, funeral plans and certain debt management activities. FSCS protection plays a critical role in protecting consumers and ensuring they can have confidence in financial services. Firms from across the financial services industry pay levies to fund both the FSCS's operating costs and the compensation it pays out.

In broad terms, a valid claim arises where an eligible claimant (as defined in the FCA Handbook glossary) has suffered harm from an act or omission by a UK-authorized firm in the carrying out of certain regulated activities for which the claimant would have an actionable civil claim against that firm, but where that firm is financially unable (or unlikely to be able) to meet that claim. The claim could arise from the firm not meeting regulatory or legal requirements (for example where it has acted negligently or in breach of contract). That conduct needs to have caused the loss to the claimant.

As such, coverage is linked to the nature of the regulated activity provided by a UK-authorized firm. For example, the FSCS covers the regulated activity of providing advice in relation to investment products.

The FSCS is intended as a fund of last resort, paying up to a limit of £85k for most types of claims. The FSCS does not provide protection against investment losses when product risk crystallises in the absence of a valid civil claim. Poor investment performance alone does not allow claims for compensation in relation to any investment product regardless of its risk profile. In addition, breaches of Principles do not, of themselves, result in a valid civil claim.

It is the responsibility of the FSCS to determine whether there is a valid civil claim against a failed UK-authorized firm.

## The FSCS and LTAF products with higher investment risk

**4.1** We are mindful that the scope of FSCS coverage may influence risk taking and return across the financial system. This raises questions about investors' personal responsibility for assumption of risk and what are reasonable expectations of compensation. The UK's current compensation scheme provides more generous coverage for retail investments than that provided by other comparable schemes in other countries, including because it provides coverage for financial advice. FSCS coverage is activity based (see explanation in box above). Therefore a broad range of products and services are implicitly covered.

Compensation schemes in other jurisdictions do not typically cover claims for investment advice (correct as of December 2021)

Compensation scheme	Scope of protection
<b>1) Investor Compensation Scheme, Ireland</b>	<p>'The Investor Compensation Scheme (ICS) protects clients of an investment firm that goes out of business. The scheme pays compensation when an investment firm authorised by the Central Bank is unable to return money or investment instruments it owes to consumers who invested with it.'</p> <p>'The ICS doesn't pay compensation if:</p> <ul style="list-style-type: none"> <li>– You incur losses due to receiving bad investment advice</li> <li>– Your investment is poorly managed</li> <li>– Your investment performs poorly due to market conditions or</li> <li>– other economic forces.'</li> </ul>
<b>2) Investor Compensation Scheme, Germany</b>	<p>'Liabilities from securities transactions that are payable to customers are covered by the statutory investor compensation schemes. This includes funds owed to investors in connection with securities transactions (e.g. dividends, distributions or disposal proceeds).</p> <p>The schemes also protect your claims against your bank for the return of the securities held in custody for you. You are eligible for compensation if an institution has embezzled or misappropriated your securities or funds and is no longer able to return them.</p> <p>If your insolvent bank has misadvised you, however, the investor compensation schemes will not apply. You will thus not be compensated for any lost profits or losses incurred due to a misguided investment strategy.'</p>



Compensation scheme	Scope of protection
<p><b>3) National Guarantee Fund, Australia</b></p>	<p>'The National Guarantee Fund (NGF) is the compensation fund for certain losses incurred by investors who trade in shares on ASX. The NGF applies only in specific circumstances and does not compensate investors for trading losses including those caused by market events or by investment choices based on poor advice.'</p> <p>In July 2021 the Australian Government published a consultation paper on a new compensation scheme of last resort. It proposed that the scheme would cover unpaid determinations made by the Australian Financial Complaints Authority, including in relation to personal advice to retail clients on relevant financial products.</p>
<p><b>4) Securities Investor Protection Corporation (SIPC), US</b></p>	<p>'SIPC protects against the loss of cash and securities – such as stocks and bonds – held by a customer at a financially-troubled SIPC-member brokerage firm.'</p> <p>'SIPC protection is limited. SIPC only protects the custody function of the broker dealer, which means that SIPC works to restore to customers their securities and cash that are in their accounts when the brokerage firm liquidation begins. SIPC does not protect against the decline in value of your securities. SIPC does not protect individuals who are sold worthless stocks and other securities. SIPC does not protect against losses due to a broker's bad investment advice, or for recommending inappropriate investments.'</p>
<p><b>5) Canadian Investor Protection Fund (CIPF), Canada</b></p>	<p>'CIPF provides limited protection for property held by a member firm on behalf of an eligible client, if the member firm becomes insolvent.'</p> <p>'CIPF coverage is custodial in nature. CIPF does not provide protection against any other type of risk or loss.'</p>

Sources:

1) <https://www.centralbank.ie/consumer-hub/explainers/what-compensation-schemes-protect-consumers-of-authorised-firms>

2) [https://www.bafin.de/EN/Verbraucher/Schieflage/sicherungseinrichtungen\\_node\\_en.html](https://www.bafin.de/EN/Verbraucher/Schieflage/sicherungseinrichtungen_node_en.html)

3) <https://www2.asx.com.au/investors/learn-about-our-investment-solutions/shares/compensation-funds> and [https://treasury.gov.au/sites/default/files/2019-12/191220\\_cslr\\_discussion\\_paper.pdf](https://treasury.gov.au/sites/default/files/2019-12/191220_cslr_discussion_paper.pdf)

4) <https://www.sipc.org/>

5) <https://www.cipf.ca/>

**4.2** FSCS paid out more than £400m in compensation every year between 2017/18 and 2021/22 and estimates compensation costs for 2022/23 to be £471m. Costs attributable to the Investment Provision funding class (and therefore associated with the FSCS levies charged to firms such as asset managers and SIPP operators) were in total £470m over the period 2017/18 to 2022/23. These compensation costs have been generated by failed firms causing harm and, along with the costs of running the FSCS, are recovered from authorised firms through FSCS levies.

**4.3** Unless we amend existing rules on FSCS coverage, regulated activities relating to advising on and distributing units in an LTAF, managing an LTAF, and acting as the

depository of an LTAF) are within the scope of FSCS. This is because the current design of FSCS links coverage to activities a firm carries out rather than by the type of product.

- 4.4** We have said previously in the Compensation Framework Review Feedback Statement that we are open to exploring opportunities to restrict the scope of protection and potentially exclude certain activities or product types from the FSCS, including in relation to non-standard asset types. As the LTAF is a new product that has not been widely distributed to retail investors yet, it is an opportune time to ask whether excluding FSCS cover for this product would be an appropriate first step toward change with a broader review of non-standard assets and the scheme to follow.
- 4.5** The question of FSCS coverage arises in relation to the LTAF because such funds have the potential to be complex with higher investment risk. The nature of an LTAF's assets mean they are inherently illiquid, and in times of stress may be harder to value, with consumers not being able to exit the scheme at short notice. These features need not be regarded as a negative. However, it is important that investors who seek out the opportunities associated with such investments, accept these associated risks and only invest if they are willing to bear the consequences.
- 4.6** The Consumer Duty requires firms to act to deliver good customer outcomes, including ensuring that investors do not invest without a strong understanding of the risks. Firms should also consider the Duty's rules and guidance, including under the consumer understanding outcome, when developing their distribution approach.
- 4.7** There are good arguments in favour of removing FSCS coverage for activities relating to LTAF. Providing FSCS protection in circumstances where investors seek higher investment risk might be said to create a moral hazard by providing additional protections for an inherently risky product. It might seem incompatible to provide investors with a safety net in such circumstances.
- 4.8** By extending the direct distribution of LTAF to retail investors, we are expanding the number of people who can invest in these products. We are doing this because, when appropriately sold with risk warnings and an appropriateness assessment, an unadvised investor should be able to understand those risks and only invest if within risk and liquidity appetite. Where LTAFs are sold on an advised basis, advisers are required to have undertaken a suitability exercise, which involves the adviser determining the investor has the necessary knowledge and experience to understand the risks involved in buying units in an LTAF.
- 4.9** There are some arguments against removing protection for LTAFs. Removing FSCS protection in relation to advice about LTAFs might be considered unfair in some circumstances, as this would imply the investor may not have received adequate information and advice about risks associated with the LTAF from the advising firm but could no longer make a claim against them. The advising firm may have misrepresented the suitability of the investment for the investor's needs. Another argument is that we should not take a piecemeal approach to excluding certain activities or products from FSCS protection. Similar arguments against the removal of FSCS cover might be deployed in circumstances in which an investor might seek to bring a claim against an AFM to an LTAF, or a firm acting as a depository to a LTAF.

- 4.10** It is also possible that removing FSCS cover in these circumstances might inappropriately deter some investors from investing in LTAFs, especially as it would be the only investment product excluded from FSCS coverage. When seeking feedback on the Compensation Framework Review call for input most respondents did not support taking a piecemeal approach but sought a more holistic review of coverage of the scheme.
- 4.11** However, these arguments are less compelling if making changes to the LTAF coverage is a first step in a journey to changing FSCS protection for non-standard assets. In such a scenario we would be providing clarity for whether the LTAF is covered by the FSCS before the LTAF is widely distributed to retail investors.
- 4.12** If we were to exclude LTAFs within the current overall FSCS framework, there are various options for how we could do this. We could remove the LTAF from scope for all activities (i.e. on an entire product basis), or on an activity-by-activity basis. In the latter case, for example, we could exclude the activity of advising or arranging investments in LTAFs, acting as AFM to an LTAF, and/or acting as depository to a LTAF. It would be useful to understand from stakeholders whether there should be any differentiation made between the different activities associated with the LTAF in relation to FSCS cover.
- 4.13** We would welcome views on FSCS cover for indirect exposure to LTAFs through NURS FAIFs investing in LTAFs or an LTAF offered via an insurance wrapper. Restricting access via indirect exposure may however, be more challenging to implement. In addition, it would be useful to understand views in particular when looking at LTAFs included as an investment in an occupational pension scheme.
- 4.14** Another option could be to exclude certain categories of person (such as LTAF unitholders) from being eligible claimants under the COMP rules.
- 4.15** Should we take forward scoping the LTAF out of FSCS coverage, then we would propose to take forward policy development quickly, so that new rules are consulted on ahead of LTAFs being distributed directly to retail investors. This would ensure firms are clear on the likely scope of FSCS coverage before any retail LTAFs are authorised by the FCA, providing greater clarity and certainty to firms and consumers. In parallel we are considering how we will take forward thinking on the retail distribution market more broadly, including the question of the scope of FSCS protection.

- Q1:** Do you consider that we should consult on removing FSCS protection for either (a) some activities relating to LTAF – in which case which ones; or (b) all activities? If not, why not.
- Q2:** If you support removal of LTAF from FSCS coverage, do you agree that steps should be taken to confirm the policy rules for this as soon as possible, so that these changes are made at this early stage in the process of LTAFs being distributed directly to retail investors?
- Q3:** If not, do you consider this should be kept under review as part of our wider work on FSCS cover for activities relating to investment products?
- Q4:** Are there other amendments to FCA rules, for example, on distribution and the operation of LTAFs, that you would make if FSCS coverage was limited, to enhance consumer protection?

**4.16** Please provide justification for the option you favour. Please respond by 10 August 2023 via [ps237@fca.org.uk](mailto:ps237@fca.org.uk) or [Qualtrics form](#).

## Chapter 5

# Cost Benefit Analysis

## Summary

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- 5.1** The finalised policy positions for the broadening of retail and pensions distribution of the LTAF are generally as consulted in CP 22/14, with some changes driven by respondents' feedback. We have confirmed that most of these changes will have no change to the cost impact set out in the CBA within CP 22/14, due to their limited scope, or because there are no material changes in policy intent or in firms' processes.
- 5.2** However, we have identified one area where a change of policy arising due to feedback from CP22/14 has some potential non-trivial cost impact. This is where we have decided to expand distribution of LTAFs further to non-advised policyholders in long-term unit-linked products, including non-qualifying pension schemes or non-workplace pension schemes, where there will be a requirement to ensure that an appropriateness assessment has been conducted prior to investing. This appropriateness assessment will have a limited cost impact on firms, depending on the take-up of this option by eligible pension schemes. Schemes have discretion to offer this distribution or not, and will not offer it unless it is profitable to do so. However, even if we were to assume all schemes were affected it doesn't change the CBA.

## Policy changes from consultation paper CBA

- 5.3** Respondents to CP 22/14 did not raise any concerns with the CBA in their feedback. However, the feedback we received in response to the CP has led us to make a number of policy changes and corrections, as described in Chapters 2 and 3 above. Most of these changes are expected to have either zero cost impact vs. the original CBA, or have costs of minimal significance, as follows:
- **Risk warning and risk summary text:** This change is only a textual change to that which was proposed in the CP and given that there are only a few LTAFs approved at this stage, and none are yet distributed to retail investors, there will be no additional costs from this change compared to our original CBA.
  - **Retail investor protection rules:** The only LTAFs that have been authorised are structured as Authorised Contractual Schemes (ACS). If firms want to apply the rules for "limited protection LTAF investors" rather than the more detailed rules for LTAFs intended for LTAF retail investors, they will have to modify their instruments constituting the fund to include the new statement referred to in COLL 15.3.6R (6)(3) and their prospectuses in accordance with COLL 15.4.5R(16)(10A). Those firms will also have to take reasonable steps to stop retail investors becoming unitholders.
  - These rules will require this change to the fund instruments to be carried out within 12 months of the coming into force of the new rules or at the next update made for other reasons, whichever is sooner. We expect that firms will already be

fully aware of the client categorisation of their investors and if they wish to operate a limited protection LTAF, can manage their register of unit holders to manage who they sell units to. We consider this change to have costs of minimal significance.

- **Fund-of-funds exposure limits:** The final rules require a NURS FAIF that invests more than 50% of its scheme property in LTAFs to operate limited redemption arrangements. It is likely to take many years for sufficient LTAFs to be authorised and distributed before a FAIF would be able to allocate a significant part of its NAV into LTAFs. Therefore, the costs and benefits of this change will not arise for some time. Where costs or benefits do arise, we do not think they will be material.
- However, a FAIF would not choose to exceed the 50% limit and operate limited redemption arrangements unless it was profitable to do so. In any case, limited redemption arrangements are already an option for FAIFs with high levels of illiquid assets, and we consider that this change will have costs of minimal significance.
- **Third party valuation rules:** This is a clarification of the policy intent for an effective valuation process in the original LTAF regime. The revised wording clarifies our expectations of the third-party valuers and should lead to better valuations. As this is a clarification not a change of the policy intent, we consider that this will have costs of minimal significance.
- **Self-select DC scheme exposure limit:** Extending the exposure limit for self-select defined contribution scheme investors to be the higher of either 10% of the consumer's total pension value, or that of the default arrangement within the same qualifying scheme is a change in the allocation constraints for the pension scheme. However, given there are no existing self-select schemes offering LTAFs yet and that our original proposals and CBA envisioned oversight of self-select exposure in relation to the default arrangement of the same qualifying scheme, there is no material change in cost compared to the original CBA.
- **35% illiquid assets limit:** As drafted, the relevant rule to remove the 35% restrictions on illiquid assets in unit-linked products, where the investor is a qualifying default pension scheme was omitted in error from the draft instrument. Given that there is no change in the policy intent, correcting this error in the rules will have no impact on the original CBA.
- **Notification of Illiquidity:** We have set out that consumers with LTAFs outside of the default arrangement within qualifying schemes should receive a notification alerting them to the illiquid nature of their holdings as they approach retirement age but have not included a rule to this effect. This aligns with our existing requirements to highlight relevant risk factors on approach to retirement and as such, the costs will be of minimal significance.

**5.4** However, the (post-consultation) expansion of distribution to include non-advised policyholders in **long-term unit-linked products**, including non-qualifying pension schemes and non-workplace pension schemes will have a cost impact vs. the assumptions in the CBA, as follows:

- **Non-advised policyholders:** We are expanding distribution beyond our initial proposal to offer LTAF to advised policyholders in long-term unit-linked products, including non-qualifying pension schemes and non-workplace pension schemes, to include non-advised policyholders. We are also requiring the insurer to ensure that these non-advised policyholders have had an appropriateness assessment prior to investing. This is a new process for those schemes, but they will be able to

take advantage of the existing appropriateness assessments developed for the portfolio LTAFs.

- These rules changes are 'permissive' and a response to industry feedback. They allow firms to change their practices, in this case introducing products offering exposure to investments in the LTAF, 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 profits will outweigh the costs. This permissive nature of our rules should be factored in when considering the costs of our rule changes. That being said, this requirement was not factored into the original CBA.

## Costs of our rule changes

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### IT changes

- 5.5** We are expanding access to non-advised policyholders in long term unit-linked products, including non-workplace and non-qualifying workplace schemes in response to industry feedback. In order to ensure sufficient consumer protection, and in line with the protections in place when accessing the LTAF through the RMMI framework, we are requiring firms to ensure that non-advised policy holders have received an appropriateness assessment prior to investing in the LTAF.
- 5.6** Firms are not required to extend access to non-advised investors, but we view this as an important protection if they wish to do so. We are also giving firms flexibility in how this appropriateness assessment is applied in order to reduce the cost of compliance while maintaining stringent consumer protections.
- 5.7** We do not expect firms to make large scale IT changes to comply with the rules, as they should already have existing infrastructure in place that can be modified.
- 5.8** The IT changes that would need to be made are, depending on the types of investment, the following:
- Amend the appropriateness test question and answer fields and introduce alternative question sets for reassessments
  - Incorporate record keeping requirements into data collection
- 5.9** Based on our standardised cost model, we assume a one-off average cost to firms of £6K to £38K to update their IT systems, depending on size of the firm, across several roles (business analysis team, design team, programming team, project management team, test team, senior management). We acknowledge that there may be significant disparities amongst firms, with some firms needing more days than the average and some needing less to update their systems.
- 5.10** The firms impacted by these costs are different to the costs referenced in the original CBA. We do not have a clear number of affected firms and note that firms will only offer LTAFs to non-advised long-term unit-linked products if they choose to do so. These numbers are indicative per firm costs, are relatively small and do not change the overall conclusions of our original CBA.

## Secondary International Competitiveness and Growth Objective

**5.11** As this PS has been published in 2023, we have had regard to the requirements set out in the FCA Remit Letter ([here](#)) that HMT published on 9th December 2022. This work is in support of the government's ambition to encourage economic growth in the interests of consumers and businesses, specifically:

- **Investment in productive assets:** The LTAF is specifically designed to invest efficiently in venture capital, private equity, private debt, real estate and infrastructure. Increasing the scale of investment in these asset classes may, by allocating investment into the productive parts of the economy, lead to faster economic growth.
- **Sustainable finance:** Separate to supporting faster economic growth, the LTAF is well placed to support the transition to a low-carbon economy, and 2 LTAFs with a focus on sustainability have already been authorised. Though we do not have information on the future likelihood of sustainable LTAFs being launched, progress so far has been promising.
- **Better outcomes for consumers:** Giving retail investors access to the LTAF could, by diverting investment into alternative asset classes, lead to higher returns and/or increased diversification for retail investors. Higher returns for investors should lead to more capital entering the UK market and hence driving further economic growth.

## Benefits

---

**5.12** Our policy changes are intended to enable a broader range of consumers to benefit from the potentially higher returns and diversification enabled by investment in the LTAF. Firms will benefit from being able to offer the LTAF in a wider range of circumstances and there is potential for the economy to benefit from greater investment in productive finance.

**5.13** As stated in CP22/14, we don't think it is reasonably practicable to estimate these wider economic benefits. Consequently, we cannot say how much the benefits would increase relative to the benefits of the rules as consulted in CP 22/14. We think the additional changes made to our proposals in CP 22/14 increase the benefits relative to the costs and hence improve the proportionality of the rules.

**5.14** The rule changes impact a slightly different group of firms from those firms which sustained a cost impact in the original CBA and are generally relatively small. In any case, firms have a choice of whether to manufacture or distribute LTAFs (either as a stand-alone product, or as part of another product such as a NURS FAIF or pension), and that they will only do so if the benefits outweigh the costs.



## Annex 1

# List of non-confidential respondents

Alternative Investment Management Association–Alternative Credit Council (AIMA-ACC)

Association of British Insurers (ABI)

Association of Investment Companies (AIC)

Association of Real Estate Funds (AREF)

Bank of New York-Mellon

BlackRock

British Private Equity and Venture Capital Association (BVCA)

CCLA Investment Management

Consumer Panel

Depository and Trust Association (DATA)

Hargreaves Lansdown

Institute and Faculty of Actuaries (IFoA)

Investment Association (IA)

Legal & General Investment Management Limited

London Stock Exchange Group

Lane Clark & Peacock LLP

M&G plc

Personal Investment Management & Financial Advice Association (PIMFA)

Schroders

Scottish Widows

Simmons & Simmons

Sonja Lami

The Investing and Savings Alliance (TISA)

XPS Pensions Group

## Annex 2

# Abbreviations used in this paper

Abbreviation	Description
<b>ACS</b>	Authorised Contractual Scheme
<b>AFM</b>	Authorised Fund Managers
<b>AIFM</b>	Authorised Investment Fund Manager
<b>AUT</b>	Authorised unit trust
<b>CIS</b>	Collective Investment Scheme
<b>CP</b>	Consultation Paper
<b>CD</b>	Consumer Duty
<b>CBA</b>	Cost Benefit Analysis
<b>DB</b>	Defined Benefit
<b>DC</b>	Defined Contribution
<b>DP</b>	Discussion Paper
<b>DOFP</b>	Direct Offer Financial Promotions
<b>FSCS</b>	Financial Services Compensation Scheme
<b>FIIA</b>	Fund investing in Inherently Illiquid Assets
<b>FOS</b>	Financial Ombudsman Service
<b>HNWI</b>	High Net Worth Individuals
<b>HMT</b>	His Majesty's Treasury
<b>ISA</b>	Individual Savings Account
<b>LTAf</b>	Long-Term Asset Fund
<b>NMPI</b>	Non-Mainstream Pooled Investment

Abbreviation	Description
<b>NMMI</b>	Non-Mass Market Investment
<b>NURS</b>	Non-UCITS Retail Scheme
<b>NURS FAIF</b>	Non-UCITS Retail Scheme Fund of Alternative Investment Fund
<b>PS</b>	Policy Statement
<b>PFWG</b>	Productive Finance Working Group
<b>PRA</b>	Prudential Regulatory Authority
<b>QIS</b>	Qualified Investor Scheme
<b>RRS</b>	Readily Realisable Securities
<b>RMMI</b>	Restricted Mass Market Investment
<b>SIPP</b>	Self-Invested Personal Pension
<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities
<b>UCIS</b>	Unregulated Collective Investment Schemes
<b>WCAG</b>	Web Content Accessibility Guidelines

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## Appendix 1

# Made rules (legal instrument)

**LONG-TERM ASSET FUND (AMENDMENT) INSTRUMENT 2023****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);
    - (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 3 July 2023.

**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 2023.

By order of the Board  
12 June 2023

## Annex A

### Amendments to the Glossary of definitions

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

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

<i>conditional permitted illiquid assets</i>	in relation to <i>conditional permitted links</i> , and in respect of a firm's business with <i>linked policyholders</i> , any <i>permitted link</i> or <i>conditional permitted link</i> (other than a <i>conditional permitted long-term asset fund</i> ) that has a similar liquidity profile to that of a <i>conditional permitted long-term asset fund</i> .
<i>limited protection LTAF class</i>	(in <i>COLL</i> ) a class of units in a <i>long-term asset fund</i> which is intended only for <i>limited protection LTAF investors</i> .
<i>limited protection LTAF investor</i>	<p>an investor in a <i>long-term asset fund</i> who is:</p> <ul style="list-style-type: none"> <li>(1) a <i>professional client</i>; or</li> <li>(2) a <i>retail client</i> who is: <ul style="list-style-type: none"> <li>(a) (i) a <i>certified high net worth investor</i>; or</li> <li>(ii) an investor who has been certified as a 'high net worth investor' in accordance with <i>COBS 4.12A.21R(1)</i> and <i>COBS 4.12A.22R</i> (Third condition: categorisation);</li> <li>(b) (i) a <i>certified sophisticated investor</i>; or</li> <li>(ii) an investor who has been certified as a 'sophisticated investor' in accordance with <i>COBS 4.12A.21R(2)</i> and <i>COBS 4.12A.22R</i> (Third condition: categorisation); or</li> <li>(c) (i) a <i>self-certified sophisticated investor</i>; or</li> <li>(ii) an investor who has self-certified as a 'sophisticated investor' in accordance with <i>COBS 4.12A.21R(3)</i> and <i>COBS 4.12A.22R</i> (Third condition: categorisation).</li> </ul> </li> </ul>

*LTAF retail class* (in *COLL*) a class of units in a long-term asset fund which is sold, promoted or otherwise made available to retail clients who are not limited protection LTAF investors.

Amend the following definitions as shown.

- excluded security* any of the following investments:
- ...
- (h) a security issued by a regulated collective investment scheme other than:
- ~~(A) a qualified investor scheme; or~~
- ~~(B) a long-term asset fund.~~
- 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, if relevant in relation to a long-term asset fund, *COLL* 15.8.15GR (Charges on buying and selling units).
- register* ...
- (3) (in *COLL*) either:
- (a) the register of unitholders kept under (as appropriate):
- (i) Schedule 3 to the *OEIC Regulations*, ~~or;~~



- (ii) *COLL* 6.4.4 R (Register: general requirements and contents);~~or;~~
- (iii) *COLL* 8.5.8 R (The register of unitholders: AUTs or ACSs);~~;~~ or
- (iv) *COLL* 15.7.-12BR (The register of unitholders: AUTs or ACSs (schemes made available to retail clients who are not limited protection LTAF investors) or *COLL* 15.7.12R (The register of unitholders: AUTs or ACSs as appropriate or, (schemes intended only for limited protection LTAF investors)) (as applicable); or

- (b) in relation to a *collective investment scheme* that is not an *authorised fund*, a record of the holders (other than of *bearer certificates*) of *units* in it.

*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.

#### 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:

...

(b) ...

(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 assets may take a long time to buy and sell. Only invest if you can wait (possibly several years) to get your money back. You do not have protection against poor performance.**

(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:

...

(b) ...

(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 can 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.

...

...

- (7) ...

- (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 ...

- (2) ...

- (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:

...

- (3) ...

- (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 ...

(2) ...

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

...

(b) ...

(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 assets may take a long time to buy and sell. Only invest if you can wait (possibly several years) to get your money back. You do not have protection against poor performance. Take 2 mins to learn more.**

[*Editor's note:* 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 ~~(2)(a)~~ (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.
- (7) ...
- (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~~ any 'cooling off period' 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*;

...

...

#### Risk summaries

4.12A.44 R Where a *rule* in this section requires a *firm* to communicate a risk summary selected from *COBS 4 Annex 1R*, the *firm* must either:

- (1) (subject to *COBS 4.12A.46R*) provide the risk summary as it appears in *COBS 4 Annex 1R*; or

...

4.12A.45 G For the purposes of *COBS 4.12A.44R(2)*, the following reasons are considered to be valid:

...

- (4) the sole purpose of the relevant statement in the risk summary is to include a hyperlink to a webpage and the medium of communication does not permit the incorporation of a link;
- (5) the firm is required to adapt the risk summary in accordance with COBS 4.12A.11R(8) (Risk warning) or COBS 4.12A.20R(8) (Second condition: personalised risk warning).

This list is not exhaustive.

- 4.12A.46 R COBS 4.12A.44R(1) does not apply to a firm which communicates a risk summary relating to units in an LTAF (see COBS 4.12A.11R(8) (Risk warning) and COBS 4.12A.20R(8) (Second condition: personalised risk warning)).
- 4.12A.47 G A firm communicating a risk summary relating to units in an LTAF (see COBS 4 Annex 1R(7) (Risk summaries)) is required to adapt the risk summary to reflect the characteristics of the relevant LTAF, particularly the dealing arrangements for the LTAF and the applicable notice period (see COBS 4.12A.11R(8) (Risk warning) and COBS 4.12A.20R(8) (Second condition: personalised risk warning)). Other amendments may also be appropriate. When amending the risk summary, the firm will need to comply with COBS 4.12A.44R(2).

## 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	<i>Firms</i> must ensure that a personalised risk warning and summary of the risks is made available to the <i>client</i> and a period of at least 24 hours (the ‘cooling off period’) is applied before the <i>financial promotion</i> is <i>communicated</i>	All <i>non-mass market investments</i> except for <del>(1) units in long-term asset funds;</del> and <del>(2) in relation to the personalised risk warning and summary of risks;</del> <i>securities</i> in a <i>closed-ended investment fund</i> (i) applying for, or with, a <i>premium listing</i> ; and (ii) which complies with the requirements of LR 15	Before the <i>financial promotion</i> is <i>communicated</i> 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 benefits being included within the <i>financial promotions</i>	All <i>non-mass market investments</i> <del>except for units in long-term asset funds</del>	At the time the <i>financial promotion</i> is <i>communicated</i> 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,	<i>Firms</i> must ensure that a risk warning is provided to the <i>client</i>	All <i>non-mass market investments</i> except for <del>(1) units in long-term asset funds;</del>	At the time the <i>financial promotion</i> is <i>communicated</i> to a certified high net worth investor, self-certified



and COBS 4.12B.26R		and (2) securities in a closed-ended investment fund (i) applying for, or with, a premium listing; and (ii) which complies with the requirements of LR 15	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 R Risk summaries  
1

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

...

...	...
6	...
7	<p><u>Risk summary for units in a long-term asset fund</u></p> <p><b><u>Estimated reading time: 2 min</u></b></p> <p><u>Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.</u></p> <p><b><u>What are the key risks?</u></b></p> <p><b><u>1. You should be ready to invest for the long term and, during this time, the value of your investment may go up or down. You may lose money on your investment.</u></b></p> <ul style="list-style-type: none"> <li><u>Assets in this fund may take a long time to buy and sell.</u></li> <li><u>Long-Term Asset Funds (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 of their money. It may take many years to make a profit on the investment.</u></li> <li><u>You should carry out your own research, so that you understand what you are investing in.</u></li> </ul> <p><b><u>2. If you decide to exit early, you won’t get your money back quickly</u></b></p> <ul style="list-style-type: none"> <li><u>This LTAF accepts requests to sell units only once a month and there is also a 90-day waiting period before the value of</u></li> </ul>

	<p><u>your units is determined and you receive your money. This means that:</u></p> <ul style="list-style-type: none"> <li>○ <u>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 approximately 20 April, assuming a few extra days for the trade to close and funds to transfer.</u></li> <li>○ <u>The value of the units you sell will be at the price set on 15 April if it is a business day, or else the next business day after it.</u></li> </ul> <ul style="list-style-type: none"> <li>● <u>Once your redemption request has been approved, you cannot cancel your request.</u></li> </ul> <p><b><u>3. It will take a long time to make profits</u></b></p> <ul style="list-style-type: none"> <li>● <u>If the assets the LTAF invests in are successful, it may still take a long time to get your money back and make a profit.</u></li> <li>● <u>You should not expect to get your money back as payments of income (unless the LTAF includes payments of income as an investment objective).</u></li> </ul> <p><b><u>4. Don't put all your eggs in one basket</u></b></p> <ul style="list-style-type: none"> <li>● <u>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.</u></li> <li>● <u>A good rule of thumb is not to invest more than 10% of your money in high-risk investments.</u></li> </ul> <p><b><u>5. You are unlikely to be protected if something goes wrong</u></b></p> <ul style="list-style-type: none"> <li>● <u>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 [<a href="https://www.fscs.org.uk/check/investment-protection-checker/">https://www.fscs.org.uk/check/investment-protection-checker/</a>].</u></li> <li>● <u>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 <a href="https://www.financial-ombudsman.org.uk/consumers">https://www.financial-ombudsman.org.uk/consumers</a>].</u></li> </ul>
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...

#### 4 Annex R Restricted investor statement

5

This Annex belongs to COBS 4.12A.22R.

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

...

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) *COBS 10 Annex 1G* in relation to *non-readily realisable securities*; ~~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**

...

10.4.2 R ...

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*.

...

After *COBS 10 Annex 2G* (Assessing appropriateness: P2P agreements and P2P portfolios), insert the following new Annex, *COBS 10 Annex 3*. 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)(m)*.

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 (where relevant) 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.

Amend the following as shown.

**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.4.2    UK    ...

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*.

...

**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~~; and
  - (6) (only in respect of a *linked fund* included in the default arrangement of a *qualifying scheme*) conditional permitted illiquid assets.
- 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:
- (-1) (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) a *personal recommendation*, or investment management services, from a *firm*, as to the suitability of the investment for the *policyholder*; or
    - (b) (where the *policyholder* has not received any of the services in (a)) an assessment from a *firm* (which could be the *insurer*, and where the circumstances are appropriate, the *firm* may rely on assessments made by another *person* on whom it is reasonable for the *firm* to rely) that the investment is appropriate for the *policyholder* in accordance with *COBS 21.3.16AR*;
  - ...
  - (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*~~. (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*.
- 21.3.16A R (1) The appropriateness assessment in *COBS 21.3.16R(-1)(b)* must be done in accordance with the *rules* in either *COBS 10* or *COBS 10A*.



- (2) The effect of (1) is that if the *rules* in COBS 10 or COBS 10A do not apply to a *firm*, the assessment the *policyholder* has received must be undertaken by the *firm* as if the *rules* in COBS 10 or COBS 10A applied.
- (3) Where (2) applies, the condition in COBS 21.3.16R(-1)(b) will be met where a *firm* has conducted the appropriateness assessment in accordance with either:
- (a) COBS 10 as it would apply to a *firm* that *arranges or deals* in relation to a *unit* in a *long-term asset fund*; or
  - (b) COBS 10A as it would apply to a *firm* that either:
    - (i) provides *investment services* in relation to a *unit* in a *long-term asset fund*; or
    - (ii) carries on *insurance distribution* in relation to an *insurance-based investment product* (taking into account the guidance in COBS 10A.2.12G as if it referred to investment in *conditional permitted long-term asset funds*), and
- the *firm* must apply the set of *rules* in either (a), (b)(i) or (b)(ii) which are the most:
- (c) consistent with the *firm's* understanding and experience; and
  - (d) appropriate for the *policyholder*.
- (4) The appropriateness assessment must ensure (but is not limited to ensuring) that the total exposure the *policyholder* has or would have to *conditional permitted long-term asset funds*, at the point the investment is made and based on expected contributions at the time, is not greater than 10% of:
- (a) (in relation to a *policy* held by an individual *policyholder* who is a natural person) the person's exposure to *permitted links* in the *policy*;
  - (b) (other than in (a) and (c) and where the investment risk is borne by a *policyholder* who is a natural person) that natural person's individual exposure to *permitted links* in the *policy*; or
  - (c) (where the *policy* is used by the holder of the *policy* for the purposes of providing benefits under a pension scheme, other than a *qualifying scheme*, and the investment risk is borne by a member of the scheme who is a *policyholder* and a natural person), the value of that natural person's benefits under the pension scheme.

- 21.3.16B    G    (1)    Where a *firm* carries out insurance distribution in relation to an *insurance-based investment product* that includes investment in a *conditional permitted long-term asset fund*, the appropriateness requirement in *COBS 10A* will apply to that *firm* in any event. Therefore, *COBS 21.3.16AR(2)* will not be relevant to that activity.
- (2)    Where the *rules* in *COBS 10* or *COBS 10A* do not apply, the *firm* undertaking the appropriateness assessment will have the option of electing which *rules* would be most appropriate to follow. The purpose of this is to allow for *firms* to carry out the appropriateness assessment under the *rules* with which they may be most familiar for example where they are involved with the distribution of *units* in *long-term asset fund* or where the *firm* already has processes in place to meet *COBS 10A* in relation to *insurance-based investment products*. However, this flexibility will need to be exercised in a way that maintains adequate protection for *policyholders* wanting to invest in *conditional permitted long-term asset funds*.
- (3)    Where a *firm* is subject to the *rules* in *COBS 10A* when providing *investment services* in relation to *units* in a *long-term asset fund* it should not elect to comply with the *rules* in *COBS 21.3.16R(3)(a)* or (b)(ii) unless it can demonstrate why applying those *rules* was appropriate for the *policyholder*.
- (4)    Where the *policy* is used for the purposes of a pension arrangement (for example an *occupational pension scheme* where the trustees include investment in a *long-term contract of insurance*) under which there is more than one *policyholder*, the assessment in *COBS 21.3.16AR(4)(c)*, should consider the total individual exposure that any relevant *policyholder* (who is a natural person and bears the investment risk) has to *conditional permitted long-term asset funds* in that pension scheme, compared to the total value of the benefits that person has under their individual arrangement in the pension scheme.
- 21.3.16C    G    For *COBS 21.3.16R(-1)(b)* it would be reasonable for an *insurer* to rely on assessments carried out by a *person* who is not a *firm* where:
- (1)    this is properly done by or for an *occupational pension scheme* trustee or otherwise where the person has a legal responsibility to the *policyholder* who is a natural person to assess appropriateness;
- (2)    the *insurer* has the necessary systems and controls to determine how the assessment assists the *insurer* to comply with *COBS 21.3.16AR*; and
- (3)    where there is not another *firm* that has (or could) carry out an appropriateness assessment that the *firm* is able to rely on.

...

- 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* or *conditional permitted illiquid assets*, 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*~~ those investments.
- 21.3.18A R 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 higher of:
- (1) the exposure to *conditional permitted long-term asset funds* and/or *conditional permitted illiquid assets* which would be considered suitable and appropriate if that member were invested only in the *qualifying scheme's default arrangement*; or
  - 10% of the total value of the benefits in that individual pension arrangement under the *qualifying scheme*.
- 21.3.18B G (1) The assessment of the thresholds in *COBS 21.3.16AR(4)* and *COBS 21.3.18AR* should consider whether these are or would be exceeded at the point of the proposed investment being made (including the effect of any ongoing contributions as part of that investment).
- (2) Before the *policyholder* makes any further investment in *conditional permitted long-term asset funds* there will need to be an assessment of whether the conditions in *COBS 21.3.16R*, including the thresholds in *COBS 21.3.16AR(4)* and *COBS 21.3.18AR*, will continue to be met (including in relation to ongoing monthly contributions where the thresholds could be breached).
  - (3) An *insurer* should consider how to meet the obligation in *COBS 21.3.16R* for the conditions to be met on a 'continuing basis' and also its obligations under wider *rules* including the *Principles*. Whilst the condition in *COBS 21.3.16R(-1)* would apply at the

point the particular investment is being made including taking account of any ongoing contributions as part of that investment (rather than on a continuing basis), the insurer should have appropriate arrangements in place to identify whether a policyholder's investment exposure has become, or risks becoming, materially inconsistent with the thresholds in COBS 21.3.16AR(4) or COBS 21.3.18AR. Where this has occurred the insurer should take appropriate action for example communicating with the policyholder about this risk and their options.

#### Conditional permitted links: requirements

...

21.3.19A R The gross assets that a *linked fund* invests in *conditional permitted long-term asset funds* (when included in a *qualifying scheme*) or *conditional permitted illiquid assets* (when included in the *default arrangement of a qualifying scheme*) must not be included in any part of the calculation when working out whether the limit set out in COBS 21.3.19R has been exceeded.

...

#### TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: coming into force
...					
2.-1B	...				
<u>2.-1C</u>	<u>COBS 4.12A.22R</u>	R	<u>Any change to the rules specifying the form and content of the investor statements in COBS 4 Annex 2R to COBS 4 Annex 5R does not affect the continuing validity of a statement complying with the relevant rule in force at the time that it was completed and signed.</u>	<u>From 3 July 2023</u>	<u>From 3 July 2023</u>
...					

## 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.

#### 1 Introduction

...

#### 1.2 Types of authorised fund

...

Types of authorised fund - explanation

##### 1.2.2 G ...

(3) (a) *Qualified investor schemes* 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* (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, and those other retail clients to whom units in long-term asset funds can be promoted without contravening the rules in COBS 4.12A (Promotion of restricted mass market investments).

~~on the same terms as non-mainstream pooled investments.~~

...

...

...

## 5 Investment and borrowing powers

...

### 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* to which *COLL 5.7.7R* (Investment in collective investment schemes) applies. A *non-UCITS retail scheme* operating as a *FAIF* is not able to hold more than 50% of its *scheme property* in *units* of *long-term asset funds* unless it operates *limited redemption arrangements* in accordance with *COLL 5.7.7R(3)(c)* (Investment in collective investment schemes) and *COLL 6.2.19R* (Limited redemption).

...

...

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 ~~at (1) to (4)~~: in (2)(a) to (d); or
  - (c) provided the conditions in (3) are satisfied, is a *long-term asset fund*.
- (2) A *non-UCITS retail scheme* operating as a *FAIF* may invest in a second *scheme* under this paragraph if:
- (~~4~~) (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) to (3)~~ (2)(a) to (2)(c) above and COLL 5.7.5R (Spread: general) apply to each *sub-fund* as if it were a separate *scheme*.
- (3) A non-UCITS retail scheme operating as a FAIF may invest in units in a second scheme which is a long-term asset fund provided:
- (a) the long-term asset fund's liquidity, redemption policy and dealing arrangements are sufficient for the non-UCITS retail scheme to be able to meet its obligations in respect of redemptions;
- (b) if relevant, the authorised fund manager ensures that the non-UCITS retail scheme's holdings of units of different long-term asset funds are diversified enough so that it can meet its obligations in respect of redemptions; and
- (c) where the non-UCITS retail scheme invests more than 50% of the value of the scheme property in units of second schemes that are long-term asset funds, the non-UCITS retail scheme operates limited redemption arrangements that:
- (i) enable it to meet its obligations in respect of redemptions; and
- (ii) are consistent with (a) and (b).

Investment in long-term asset funds: guidance

- 5.7.7A G (1) Under COLL 5.7.7R(3)(c), a non-UCITS retail scheme operating as a FAIF will need to operate limited redemption arrangements where it invests more than the 50% of the value of the scheme property in second schemes that are long-term asset funds. The FCA expects this to be where:
- (a) the investment objective and investment policy set out in the non-UCITS retail scheme's prospectus aim to invest at least 50% of the value of the scheme property in units of long-term asset funds; or
  - (b) at least 50% of the value of the scheme property of the non-UCITS retail scheme has been invested in long-term asset funds for at least 3 continuous months in the last 12 months.
- (2) (a) In order to comply with COLL 5.7.7R(3), the non-UCITS retail scheme's authorised fund manager must be satisfied that the long-term asset fund's liquidity, redemption policy and dealing arrangements are sufficient for the non-UCITS retail scheme to be able to meet its own redemption obligations.
- (b) In determining whether (2)(a) is satisfied, the authorised fund manager should have regard to the liquidity of the other assets in which the scheme property is invested, particularly where such assets are inherently illiquid assets. This includes having regard to the redemption policies and dealing arrangements for other second schemes in which the non-UCITS retail scheme holds units.
- (3) In practice, and having regard to the liquidity of other assets, compliance with this rule may require the non-UCITS retail scheme to operate limited redemption arrangements even in circumstances where less than 50% of the value of the scheme property is invested in second schemes that are long-term asset funds.

Feeder scheme dedicated to units in a collective investment scheme

5.7.8 R ...



## 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) to (3)~~ COLL 5.7.7R(2)(a) to (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)~~ without contravening the rules in COBS 4.12A (Promotion of restricted mass market investments).

...

- (3) ...

- (4) Where:

- (a) the *scheme* is intended only for *limited protection LTAF investors* or the *scheme* has a *limited protection LTAF class*; and
- (b) COLL 15.5.-10BR to COLL 15.5.-10EG, COLL 15.5.-12BR, COLL 15.7.-12BR, and COLL 15.8.15EG to COLL 15.8.15PR have not been applied in relation to the *scheme* or the *limited protection LTAF class*,

the *authorised fund manager* must also take reasonable care to ensure that ownership of *units* in the *scheme* or *class* is recorded in the *register* only for a *person* who is a *limited protection LTAF investor*.

## Long-term asset funds - explanation

- 15.1.4 G (1) Long-term asset funds are authorised funds which are subject to a restriction on promotion. They are intended only for professional clients and for retail clients who are sophisticated investors, or certified high net worth investors, and those retail clients to whom long-term asset funds may be promoted without contravening the rules in COBS 4.12A (Promotion of restricted mass market investments). For this reason, long-term asset funds are subject to a restriction on promotion under COBS 4.12B.6R (Restrictions on the promotion of non-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 4.12B.7R (Exemptions from the restrictions on the promotion of non-mass market investments)~~ without contravening the rules in COBS 4.12A (Promotion of restricted mass market investments) and who also meets the criteria in COLL 15 Annex 1R.
- (3) (a) Some of the rules in COLL 15 relating to:
- (i) alterations to schemes, notices to unitholders and change events for feeder LTAFs (see COLL 15.5.-10BR to COLL 15.5.-10DR);
  - (ii) unitholder meetings (see COLL 15.5.-12BR);
  - (iii) the register (see COLL 15.7.-12BR); and
  - (iv) payments (COLL 15.8.15CR to COLL 15.8.15PR),
- apply where the scheme or (where applicable) a particular class of unit is made available to retail clients who are not limited protection LTAF investors (an LTAF retail class).
- (b) These rules may also be applied to a scheme or class that is intended only for limited protection LTAF investors. Where the rules are not applied in relation to such a scheme or a class, the authorised fund manager is required under COLL 15.1.3R(4) to take reasonable care to ensure that ownership of units in the scheme or class is recorded in the register only for a person who is a limited protection LTAF investor.

...

### 15.3 Constitution

...

Table: contents of the instrument constituting the fund

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

...				
<b>3</b>	<b>Constitution</b>			
	The following statements:			
...				
(9)	for an <i>ACS</i> :			
	(a)	the <i>contractual scheme deed</i> :		
		...		
		(iv)	states that <i>units</i> may not be <i>issued</i> to a <i>person</i> other than a <i>person</i> :	
			...	
			(B)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted <del>under <i>COBS</i> 4.12B.7R</del> without contravening the <i>rules</i> in <i>COBS</i> 4.12A ( <u>Promotion of restricted mass market investments</u> );
			...	
		(vii)	states:	
			...	
			(B)	where a transfer of <i>units</i> is allowed by the <i>scheme</i> or, where appropriate, the <i>sub-fund</i> , in accordance with (A)(ii), <i>units</i> may only be transferred in accordance with the conditions specified by <i>FCA rules</i> , including that <i>units</i> may not be transferred to a <i>person</i> other than a <i>person</i> :
				...

			(ii)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted <del>under COBS 4.12B.7R</del> <u>without contravening the rules in COBS 4.12A (Promotion of restricted mass market investments)</u> ; and
		(vii) (viii)		states that for a <i>limited partnership scheme</i> , the <i>scheme</i> is not dissolved on any <i>person</i> ceasing to be a <i>limited partner</i> or <i>nominated partner</i> provided that there remains at least one <i>limited partner</i> ;
	...			
...				
<b>6</b>	<b>Limitation on issue and redemption of units</b>			
...				
(2)	...			
(3)	<u>Where COLL 15.1.3R(4) (Long-term asset funds: eligible investors) applies, a statement that the <i>authorised fund manager</i> must take reasonable care to ensure that ownership of <i>units</i> in the <i>scheme</i> or a relevant <i>class</i> is recorded in the <i>register</i> only for a <i>person</i> who is a <i>limited protection LTAF investor</i>.</u>			
...				

...

## 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.

...			
<b>14</b>	<b>Fees, charges and expenses</b>		
	A description of all fees, charges and expenses, including:		
	...		

	(2)	the payments that may be made out of the <i>scheme property</i> to any <i>person</i> whether by way of <i>remuneration</i> for services, reimbursement of expense, or charge or other payment and for each category of <i>remuneration</i> , expense, charge or payment the following should be specified:
		...
	(b)	if notice has been given to <i>unitholders</i> of the <i>authorised fund manager's</i> intention to:
		...
	(iii)	change the basis of the treatment of a payment from the <i>capital property</i> set out in <del><i>COLL 15.8.16R(2) (Payments)</i></del> <u><i>COLL 15.8.15JR (Allocation of payments to income or capital)</i></u> and <u><i>COLL 15.8.15QR(2) (Payments: limited protection LTAF classes)</i></u> (as applicable),
		particulars of that introduction or increase and when it will take place; and
	(c)	if, in accordance with <del><i>COLL 15.8.16R(2) (Payments)</i></del> <u><i>COLL 15.8.15JR (Allocation of payments to income or capital)</i></u> and <u><i>COLL 15.8.15QR(2) (Payments: limited protection LTAF classes)</i></u> (as applicable), all or part of the <i>remuneration</i> or expense are to be treated as a capital charge:
		...
	...	
...		
<b>16</b>	<b>Dealing</b>	
		The procedure and conditions for the <i>issue, sale, redemption</i> and <i>cancellation</i> of <i>units</i> or <i>shares</i> including details of the following, in fair, clear and plain language, using worked examples to explain how these procedures might apply to <i>unitholders</i> in practice:
	...	
	(10)	...

	(10 A)	(where <i>COLL 15.1.3R(4)</i> (Long-term asset funds: eligible investors) applies) a statement that the <i>authorised fund manager</i> must take reasonable care to ensure that ownership of <i>units</i> in the <i>scheme</i> or a relevant <i>class</i> is recorded in the <i>register</i> only for a <i>person</i> who is a <i>limited protection LTAF investor</i> ;
	...	
<b>17</b>	<b>Issue of units in ACSs: eligible investors</b>	
	(1)	A statement that <i>units</i> may not be <i>issued</i> to a <i>person</i> other than to a <i>person</i> :
	...	
	(b)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under <del><i>COBS 4.12B.7R</i></del> without contravening the <i>rules</i> in <i>COBS 4.12A</i> (Promotion of restricted mass market investments).
	...	
<b>18</b>	<b>Transfer of units in ACSs</b>	
	...	
	(2)	A statement that where transfer of <i>units</i> is allowed by the <i>instrument constituting the fund</i> and <i>prospectus</i> in accordance with (1)(b), <i>units</i> may only be transferred in accordance with the conditions specified by <i>FCA rules</i> , including that <i>units</i> may not be transferred to a <i>person</i> other than a <i>person</i> :
	...	
	(b)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted under <del><i>COBS 4.12B.7R</i></del> without contravening the <i>rules</i> in <i>COBS 4.12A</i> (Promotion of restricted mass market investments).
	...	
...		

...

**15.5 Annual report and investor relations**

...

15.5.9 R ...

Application of the rules on alterations to the scheme and notice to unitholders

- 15.5.-10 R (1) COLL 15.5.-10BR to COLL 15.5.-10EG apply in relation to an alteration or change where the *scheme* has an *LTAf retail class* and:
- (a) the proposed alteration or change affects only *unitholders* in an *LTAf retail class*; or
  - (b) the proposed alteration or change affects *unitholders* in an *LTAf retail class* and *unitholders* in a *limited protection LTAf class*.
- (2) COLL 15.5.10R to COLL 15.5.11G may be applied in relation to an alteration or change where:
- (a) (i) the *scheme* has an *LTAf retail class*; and
  - (ii) the proposed alteration or change relates only to a *limited protection LTAf class*; or
  - (b) the *scheme* has no *LTAf retail class*.
- 15.5.-10A G Where COLL 15.5.-10BR to COLL 15.5.-10EG are not applied to a *scheme* or *class* which is intended only for *limited protection LTAf investors*, the *authorised fund manager* is required to take reasonable care to ensure that ownership of *units* in that *scheme* or *class* is recorded in the register only for a *person* who is a *limited protection LTAf investor* (see COLL 15.1.3R(4) (Long-term asset funds: eligible investors)).

Alterations to the scheme and notices to unitholders: rules for schemes or classes made available to retail clients who are not limited protection LTAf investors

- 15.5.-10B R (1) (a) 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) 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;
  - (ii) would reasonably be expected to cause the *unitholder* to reconsider their participation in the *scheme*;
  - (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*.
- (3) (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.
- (4) Alterations affecting only a particular *sub-fund* or *class of units* may be approved in accordance with (1), (2) or (3) 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 for schemes or classes made available to retail clients who are not limited protection LTAF investors

- 15.5.-10C    G    (1)    Subject to (2), the *guidance* in *COLL 4.3.5G* (Guidance on fundamental changes) applies to *COLL 15.5.-10BR(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.-10BR(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)    *COLL 4.3.5G(2)(f)* (the introduction of *limited redemption arrangements*) does not apply to *COLL 15.5.-10BR(1)*.
- (3)    The *guidance* in *COLL 4.3.7G* (Guidance on significant changes) applies to *COLL 15.5.-10BR(2)* as if the references to *COLL 4.3.6R* were references to *COLL 15.5.-10BR(2)*.
- (4)    The *guidance* in *COLL 4.3.9R* (Guidance on notifiable changes) applies to *COLL 15.5.-10BR(3)* as if the reference to *COLL 4.3.8R* was a reference to *COLL 15.5.-10BR(3)*.

Change events relating to feeder LTAFs: schemes made available to retail clients who are not limited protection LTAF investors

- 15.5.-10D    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 *COLL 15.5.-10BR*; 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.-10BR(3)*.

- (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.-10E 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*.
- (2) 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).
- (3) 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.
- (4) 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*.

Alterations to the scheme and notices to unitholders: rules for schemes or classes intended only for limited protection LTAF investors

15.5.10 R ...

Alterations to the scheme and notices to unitholders: guidance for schemes or classes intended only for limited protection LTAF investors

15.5.11 G ...

Application of rules on meetings of unitholders and service of notices

- 15.5.-12 R (1) COLL 15.5.-12BR applies in relation to a meeting of unitholders where the scheme has an LTAF retail class and either:
- (a) the meeting is only for unitholders with units in an LTAF retail class; or
- (b) the meeting is for unitholders with units in an LTAF retail class and a limited protection LTAF class.
- (2) COLL 15.5.12R may be applied in relation to a meeting of unitholders where:
- (a) (i) the scheme has an LTAF retail class; and
- (ii) the meeting is only for unitholders in a limited protection LTAF class; or
- (b) the scheme has no LTAF retail class.

- 15.5.-12A G Where COLL 15.5.-12BR is not applied to a scheme or class which is intended only for limited protection LTAF investors, the authorised fund manager is required to take reasonable care to ensure that ownership of units in that scheme or class is recorded in the register only for a person who is a limited protection LTAF investor (see COLL 15.1.3R(4) (Long-term asset funds: eligible investors)).

Meetings of unitholders and service of notices: schemes or classes made available to retail clients who are not limited protection LTAF investors

- 15.5.-12B R (1) The provisions of COLL 4.4 (Meetings of unitholders and service of notices) apply to an authorised fund manager, any other director of an ICVC and a depositary of a long-term asset fund.
- (2) The authorised fund manager must record and keep minutes for 6 years of all proceedings to which COLL 15.5.-10BR (Alterations to the scheme and notices to unitholders: schemes with unitholders who are not limited protection LTAF investors) and this rule are relevant.

Meetings of unitholders and service of notices: rules for schemes or classes intended only for limited protection LTAF investors

15.5.12 R ...

## 15.6 Investment and borrowing powers

...

Investment in property

- 15.6.18 R ...
- (2) For an immovable:
- ...
- (c) ...
- ...
- (ii) states that in the *appropriate valuer's* opinion the interest in the immovable would, if acquired by the *scheme*, be capable of being disposed of reasonably quickly at that valuation ~~in a timeframe which is consistent with the *LTAf's* liquidity profile and redemption policy;~~
- ...
- ...
- ...

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

...

15.7.11 R ...

Application of the rules on the register of unitholders: AUTs or ACSs

15.7.-12 R (1) *COLL 15.7.-12BR* applies in respect of any *scheme* which is sold, promoted or otherwise made available to *retail clients* who are not *limited protection LTAf investors*.

(2) *COLL 15.7.12R* may be applied to a *scheme* which is intended only for *limited protection LTAf investors*.

15.7.-12A G Where *COLL 15.7.-12BR* is not applied to a *scheme* which is intended only for *limited protection LTAf investors*, the *authorised fund manager* is required to take reasonable care to ensure that ownership of *units* in that *scheme* is recorded in the *register* only for a *person* who is a *limited protection LTAf investor* (see *COLL 15.1.3R* (Long-term asset funds: eligible investors)).

The register of unitholders: AUTs or ACSs (schemes made available to retail clients who are not limited protection LTAf investors)

15.7.-12B R (1) (a) Either:

- (i) the *manager* or the *trustee* (as nominated in the *trust deed*); or
- (ii) the *authorised contractual scheme manager* or the *depository* 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 *depository*, in accordance with their duties under (1)(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 *depository*.
- (e) The *register* is conclusive evidence of the *persons* entitled to the *units* entered in it.
- (f) The *person* responsible for the *register* in (1)(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 (4) below after consultation with the *manager* or *trustee* or the *authorised contractual scheme manager* or *depository*, as appropriate.
- (2) (a) Subject to (2)(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*.
- (3) (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 6 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.
- (4) 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.]

The register of unitholders: AUTs or ACSs (schemes intended only for limited protection LTAF investors)

15.7.12 R ...

...

## 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~~ without contravening the rules in *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~~ without contravening the rules in *COBS* 4.12A (Promotion of restricted mass market investments).

...

...

15.8.15 G ...

Payments: application of rules

15.8.15A R (1) *COLL* 15.8.15CR to *COLL* 15.8.15PR apply in relation to an *LTAf* retail class.

- (2) In relation to a *limited protection LTAf* class:



- (a) COLL 15.8.15CR and COLL 15.8.15DG always apply; and
- (b) COLL 15.8.15QR may be applied.
- (3) COLL 15.8.15CR to COLL 15.8.15PR apply as specified in the table in (4).
- (4) This table belongs to (3).

<u>Rule</u>	<u>ICVC</u>	<u>Authorised fund manager</u>	<u>Depository of an ICVC, AUT or ACS</u>
<u>COLL 15.8.15CR</u>	<u>x</u>	<u>x</u>	<u>x</u>
<u>COLL 15.8.15DG</u>	<u>x</u>	<u>x</u>	<u>x</u>
<u>COLL 15.8.15EG</u>	<u>x</u>	<u>x</u>	
<u>COLL 15.8.15FR</u>	<u>x</u>	<u>x</u>	
<u>COLL 15.8.15GR</u>		<u>x</u>	
<u>COLL 15.8.15HG</u>		<u>x</u>	
<u>COLL 15.8.15IR</u>		<u>x</u>	
<u>COLL 15.8.15JR</u>		<u>x</u>	<u>x</u>
<u>COLL 15.8.15KG</u>		<u>x</u>	<u>x</u>
<u>COLL 15.8.15LR</u>	<u>x</u>	<u>x</u>	
<u>COLL 15.8.15MG</u>	<u>x</u>	<u>x</u>	
<u>COLL 15.8.15NR</u>	<u>x</u>	<u>x</u>	<u>x</u>

<u>COLL</u> 15.8.15OG		<u>x</u>	<u>x</u>
<u>COLL</u> 15.8.15PR	<u>x</u>	<u>x</u>	
<b>Note:</b> “x” means “applies” but not every paragraph in every <i>rule</i> will necessarily apply.			

- 15.8.15B    G    Where *COLL* 15.8.15EG to *COLL* 15.8.15PR are not applied to *classes* which are intended only for *limited protection LTAF investors*, the *authorised fund manager* is required to take reasonable care to ensure that ownership of *units* in that *scheme* is recorded in the *register* only for a *person* who is a *limited protection LTAF investor* (see *COLL* 15.1.3R (Long-term asset funds: eligible investors)).

Payments out of scheme property

- 15.8.15C    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

- 15.8.15D    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 15.8.15CR(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 15.8.15CR(4) include payments to *platform service providers* and other similar platform services.

#### Performance fees

- 15.8.15E    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 15.8.15CR. 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 15.8.15CR(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.

15.8.15F 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

15.8.15G 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

15.8.15H 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

- 15.8.15I 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

- 15.8.15J 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

- 15.8.15K    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 15.8.15JR(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

- 15.8.15L    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

- 15.8.15M    G    Examples of payments which are not permitted by *COLL 15.8.15LR* 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 15.8.15LR(2)*).

Payments of liabilities on transfer of assets

- 15.8.15N R (1) Where the *scheme property* of an *LTAf* is transferred to a second *authorised fund* (or to the *depository* 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 *depository* 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

- 15.8.15O 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

- 15.8.15P R For a *scheme* that is an *umbrella*, any assets to be received into, or any payments out of, the *scheme property* which 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: limited protection LTAf classes

- 15.8.15Q R (1) This *rule* applies in relation to a *limited protection LTAf class* unless the provisions in *COLL* 15.8.15EG to *COLL* 15.8.15PR have been applied.

- (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.]~~

...

**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 <i>rule</i> on <del>qualified eligible</del> investors in a <i>long-term asset fund</i> which is an ACS (see <i>COLL</i> 15.1.3R(2)), the <i>authorised contractual scheme manager</i> must take reasonable care to ensure that ownership of <i>units</i> in the <i>scheme</i> is only recorded in the <i>register</i> for a <i>person</i> :
...	
(2)	to whom <i>units</i> in a <i>long-term asset fund</i> may be promoted <del>to that person</del> under <del>COBS 4.12B.7R</del> without contravening the rules in <i>COBS</i> 4.12A ( <i>Promotion of restricted mass market investments</i> ).

...

**TP 1**

**Transitional Provisions**

**TP 1.1**

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
<b><u>Amendments made by the Long-Term Asset Fund (Amendment) Instrument 2023</u></b>					
<u>57</u>	<u>COLL</u> 15.3.6R(6)(3)	<u>R</u>	The <i>authorised fund manager</i> of a <i>long-term asset fund</i> , in respect of which an <i>authorisation order</i> is in force on 3 July 2023, is not required to comply with the <i>rule</i> specified in column (2) until:  (a) the <i>instrument constituting the fund</i> is next updated; or  (b) 3 July 2024, whichever is earlier.	From 3 July 2023 to 3 July 2024	<u>3 July 2023</u>

57	<u>COLL</u> <u>15.4.5R(16)(10A)</u>	R	<u>The authorised fund manager of a long-term asset fund, in respect of which an authorisation order is in force on 3 July 2023, is not required to comply with the rule specified in column (2) until:</u>  <u>(a) the prospectus is next updated; or</u>  <u>(b) 3 July 2024, whichever is earlier.</u>	<u>From 3 July 2023 to 3 July 2024</u>	<u>3 July 2023</u>
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## 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
...				
<u>COLL</u> <u>15.2.6R(3)</u>	...			
<u>COLL 15.5.-12BR(1)</u>	<u>Minutes of meetings (AGM)</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>6 years</u>
<u>COLL 15.5.-12BR(2)</u>	<u>Minutes of meetings of all proceedings to which COLL 15.5.-10BR and COLL 15.5.12AR are relevant</u>	<u>Full details</u>	<u>As implicit from the rules in COLL</u>	<u>6 years</u>
<u>COLL</u> <u>15.5.12R(2)</u>	...			
...				

<i>COLL</i> 15.7.6R(2)(g)	...			
<u><i>COLL 15.7.-</i></u> <u>12BR(3)(e)</u>	<u>Instruments of</u> <u>Transfer</u> <i>(person</i> <u>responsible for</u> <u>the register)</u>	<u>Full details</u>	<u>From</u> <u>registration</u>	<u>6 years</u>
...				

