

## **Consultation Paper**

### **CP25/28\*\***

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# Progressing Fund Tokenisation

**October 2025**

## How to respond

We are asking for comments on Chapters 2-4 of this Consultation Paper (CP) by **21 November 2025**, and Chapter 5 by **12 December 2025**.

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

Or in writing to:

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## Chapter 1

# Summary

### Why we are consulting

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- 1.1** The UK is a leading investment management centre with £14.3trn assets under management. Asset managers play an important role in the economy, supporting the financial wellbeing of millions of people.
- 1.2** Innovation is a core contributor to economic growth, and ensuring our financial services remain fit for the future. Following our discussion paper, 'Updating and Improving the UK regime for Asset Management' (DP23/2) we have continued to support industry tokenisation initiatives in the UK. In our January [letter to the Prime Minister](#), we confirmed we would progress our roadmap for digital assets within asset management. We want to enable innovation and embrace new technology while being predictable and proportionate, in line with our [Strategy](#) to be a smarter regulator and support growth of the UK economy. This consultation delivers on these commitments by setting out proposals to help the adoption of tokenisation and tokenised funds in the UK.
- 1.3** Tokenisation is seen as a key component of future financial services. Tokenisation is a way of representing an asset, or ownership of an asset, by recording it on distributed ledger technology (DLT). DLT is a digital system that records details of transactions in multiple locations at the same time, rather than on a centralised database.
- 1.4** As younger generations invest differently, it is important that regulation evolves to serve changing consumer needs. Tokenisation can open new routes to distribute funds, broaden access to private markets and infrastructure investment, and reduce the costs of small transactions, while maintaining existing consumer protection. We want the UK to be a centre of excellence for tokenisation within financial services, with firms at the forefront of innovation.
- 1.5** Tokenisation can make fund management more efficient as it gives firms operating or distributing the fund the same records of information. This reduces the costs of reconciling and sharing data. A recent [report from Calastone](#) estimated the size of the opportunity for aggregate savings to be \$135 billion across the UK, EU and US fund industry.
- 1.6** Funds provide a way for multiple investors to pool their money to be managed collectively by a professional fund manager. Our regulatory regime distinguishes between authorised funds, where we regulate the fund and its fund manager, and non-authorised funds, where we only regulate the fund manager. The proposals in this paper apply to authorised funds, but our discussion and roadmap sections may be of interest to fund and asset managers more broadly, including managers of non-authorised funds. Our proposals address fund tokenisation, and do not address unbacked assets such as cryptocurrencies.

- 1.7** Our technology positive approach offers a number of options for firms that look for support as they seek to innovate. Regulated firms can approach us directly through our fund authorisation gateway. Alternatively, firms may want to use our Innovation Services. We've supported over 60 firms with DLT-based innovations in our Regulatory Sandbox, and more than 80 through Innovation Pathways. Firms may also look to use the Bank of England and FCA's Digital Securities Sandbox (DSS), which offers a proportionate regulatory regime to financial market infrastructure providers using new technology to provide trading and settlement services.
- 1.8** In developing tokenised fund propositions, firms may wish to use tools and platforms originally developed for unbacked cryptoassets to support tokenisation of conventional financial instruments. So, we have developed our proposals for funds alongside our digital assets agenda as set out in our Crypto Roadmap. In particular, our expectations for use of platforms based on permissionless blockchain networks for recordkeeping in fund management are consistent with CP25/25.
- 1.9** A report from the Technology Working Group (TWG) of the UK's Asset Management Taskforce (AMT) published in March 2024, proposed priority use-cases for tokenisation. We heard from firms that many models for tokenised funds will require activity to take place on chain, including through 'atomic settlement', where tokens representing fund units are swapped for a token representing cash. To do this, a fund may need to hold cryptoassets that act as the exchange token, or to facilitate payment of transaction charges (known as gas fees) for transactions on chain. This consultation paper addresses how funds could do so.
- 1.10** We know global regulatory and technical standards are key to enabling innovation. In addition to work on this consultation, we have been collaborating with other international regulators and industry through the Monetary Authority of Singapore's (MAS) Project Guardian to share knowledge and global best practices for fund tokenisation, as well as through tokenisation working groups at the International Organisation of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).
- 1.11** Our proposals include:
- Guidance for operating a tokenised fund under the Blueprint model.
  - Rules and guidance for an alternative, streamlined dealing model for conventional and tokenised authorised funds, referred to as 'direct to fund' (D2F). D2F has wider application than just to tokenised funds, but we think allowing this new dealing model will enable tokenisation.
  - A roadmap to advance fund tokenisation and address key barriers.
  - A discussion on future tokenisation models that use DLT to provide tokenised portfolio management at retail scale and how regulation may need to change to be fit for the future.
- 1.12** Our proposals aim to give firms greater clarity and thus the confidence to adopt tokenisation in fund management to improve operational efficiency. We also want to gather insight and provide a roadmap on how our rules may need to evolve in future. Our objective is to allow fund managers flexibility to operate funds in the most efficient way and enhance the competitiveness of the UK as a global hub for asset management.

- 1.13** This consultation also delivers on our objectives to protect consumers, by illustrating how firms can ensure good outcomes when using DLT in fund management, including for vulnerable consumers.
- 1.14** We also expect tokenised products to drive competition, including against conventional authorised funds. The proposals may increase consumer choice in investment products and may result in cost savings being passed on to consumers.
- 1.15** Our proposals to enable a new dealing model for authorised funds are in line with the same priorities and objectives. We intend to allow unit deals to take place directly with the fund, through a more efficient process, aligned with international practices. This will improve productivity in fund operations and fund managers will be able to adapt global processes more readily to UK operations. Our proposals may also reduce costs for new market entrants and support an easier transition to tokenised funds.
- 1.16** We also discuss the feedback from Chapter 7 (Developments in relation to use of money market fund (MMF) units) of [CP23/28](#), 'Updating the regime for Money Market Funds', which explored how tokenisation can support the use of units as collateral. Firms see the use of tokenised MMFs (tMMFs) for collateral as an accessible use case of DLT in wholesale markets because it increases transparency and may reduce the need to redeem MMF units during times of market stress. Our rules do not distinguish between tokenised and conventional MMF units where used as collateral. On this basis, we clarify the application of the UK European Market Infrastructure Regulation (UK EMIR) when counterparties determine the eligibility of MMF units as collateral.
- 1.17** Our discussion chapters look at how we can ensure our rulebook is fit for the future. We explore what regulatory changes may be needed to promote future fund tokenisation, such as the use of digital cash settlement instruments, or money-like instruments (eg stablecoins) for unit deals. We also discuss a future vision where firms may use DLT to support retail-scale portfolio management services, including via model portfolios. We already regulate portfolio management services. However, we will conduct a review to future-proof these rules where tokenisation may lead to a far greater use of portfolio management.

## Consumer Interest

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- 1.18** Digitalisation is transforming consumer expectations. Consumers want a single, complete and instant relationship with service providers, whether social media firms, online shopping or financial services. Many consumers use tools such as generative artificial intelligence (AI).
- 1.19** Asset managers are adopting various technologies to make their investment offerings and services more efficient and competitive. Firms have told us they see using DLT as a potential way to service tomorrow's investors, making digital solutions part of their strategy to support generational wealth transfer over the next few decades.
- 1.20** Tokenised funds and tokenised portfolio management may engage new investors into trusted, traditional financial products. For example, by offering shorter settlement times or real-time transparency of portfolio holdings. We want to support consumers to have confidence in financial services to meet their future needs and ensuring regulation is fit for the future is central to this.
- 1.21** We engaged with the FCA's Financial Services Consumer Panel and consumer representatives in developing our proposals on fund tokenisation.
- 1.22** Some chapters of this consultation are more relevant to consumers. We particularly welcome views from consumer groups and consumers on Chapter 5, which explores how tokenisation might change investment management in the future.

## Scope

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- 1.23** The proposals in this paper apply to:
- UCITS management companies.
  - UK Alternative Investment Fund Managers (AIFM) managing authorised funds.
  - Depositaries of authorised funds.
- 1.24** This paper might also be of interest to:
- AIFMs and depositaries of unauthorised funds.
  - Portfolio managers providing services to both professional and retail investors.
  - Investment platform providers.
  - Financial advisers and investment consultants.
  - Custodians and cryptoasset custodians.
  - Fintech firms.
  - Stablecoin issuers and stablecoin backing asset pool providers.

## Next steps

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- 1.25** Please respond to the questions on Chapters 2-4 of this Consultation Paper by 21 November 2025, and to those in Chapter 5 by 12 December 2025, using our electronic survey or one of the other methods in the 'How to respond' section.
- 1.26** We will review the feedback and develop final regulatory requirements for publication in a Policy Statement (PS), expected in the first half of 2026.

## Environmental, social & governance considerations

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- 1.27** In developing the proposals in this Consultation Paper, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of the Financial Services and Markets Act 2000 (FSMA) to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021.
- 1.28** On balance, we do not think that there is any contribution the proposals outlined in this consultation can make to these targets. We will keep this issue under review during the consultation period and when considering whether to make the final rules. In the meantime, we welcome your input to this consultation on this.

## Equality and diversity considerations

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- 1.29** Overall, we do not consider our proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies).
- 1.30** As evidenced in Chapter 1 of [CP25/25](#), we have observed that certain demographic segments are over-represented in cryptoasset ownership. Our tokenisation related proposals in Chapter 2 are targeted at authorised funds, which are regulated investment products and do not present the same risks as unbacked cryptoassets such as Bitcoin. At the same time, similar technology and infrastructure is used for recording ownership and trading. This may result in similar demographic trends, particularly in early adopters of the technology.
- 1.31** Access to tokenised funds may require use of a digital wallet or the ability to understand how encryption operates using public and private keys. This new type of account information (akin to usernames and passwords, and typically lengthy) may be unsuitable for consumers who face challenges adopting new technology, which may include some with age characteristics under the Act. Our suggested guidance on operating a tokenised fund register provides guidance on how fund managers can retain authority for the register, in line with our existing requirements for conventional funds. This might include alternative options to contact the manager, where some target investors are uncomfortable initiating on-chain transactions.



## Chapter 2

# Accelerating tokenisation of authorised funds

## Background

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- 2.1** We have worked closely with industry groups on tokenisation initiatives. We were observers on the industry-led Technology Working Group (TWG) of the previous government's Asset Management Taskforce (AMT). In November 2023, the TWG published its interim report, setting out how firms can operate a tokenised unitholder register within our existing legal and regulatory frameworks, known as the Blueprint model. We authorised the first tokenised UK UCITS under the Blueprint in January 2025.
- 2.2** The Blueprint model is the first stage of enabling UK funds to use DLT for operational efficiencies. It envisaged that dealing in fund units would be reflected on, or take place through, blockchain-based records. Conventional processes would be used for cash movements, pending wider adoption of on-chain cash instruments or money-like instruments (eg stablecoins) and the development of a regulatory regime for them.
- 2.3** We received feedback and questions from firms on adopting the Blueprint. We want to give firms the confidence to use tokenised fund registers whether through the Blueprint or in more advanced models we explore in Chapters 4 and 5. So, we are consulting on guidance to clarify how managers can meet their existing regulatory obligations to ensure consumer protection and maintain market integrity.
- 2.4** When the Blueprint was first introduced, it was assumed that a private-permissioned blockchain would be used. Firms may also use public networks, so long as they have the appropriate controls in place to meet the outcomes in our rules and comply with relevant regulations, such as data privacy. Our proposed guidance sets out how firms may think about our rules in a DLT context, including when using public DLT networks.
- 2.5** We will continue to take a technology positive approach to interpreting the rules for operating fund registers. Consumers do not need to understand the mechanics of tokenisation or unit dealing processes in authorised funds to make informed investment decisions. They should not be overwhelmed with disclosures linked to new technology that go beyond comparable features and constraints of conventional products.
- 2.6** Our rules for operating authorised fund registers in the Collective Investment Schemes sourcebook (COLL), and the corresponding content in the Open-ended Investment Companies (OEIC) Regulations, are generally technology neutral and outcomes-based. Ensuring unitholder records are accurate and up-to-date allows the fund to be managed effectively so that the number of units in its valuation reflects recent investor deals, and information on unitholder concentration is available for liquidity management purposes.

- 2.7** The effect of our existing rules is that the firm responsible for operating and maintaining the register can make unilateral updates to it to, for example:
- Process decisions of courts, life events such as divorce and death.
  - Resolve fraud and manage unitholder defaults.
  - Undertake mandatory redemptions where required to support fund mergers / closures, or where the residency / tax status of particular investors may prejudice the interests of the broader pool of investors.
- 2.8** The firm must also ensure the fund has legal domicile and jurisdiction for service of legal documents in the UK. The register needs to be portable, and records need to be accessible to the depositary, regulator and unitholders in the fund.
- 2.9** In introducing the Blueprint, we recognised that the principles and outcomes set out in the regulations remain valid and necessary in the context of DLT/blockchain based register systems. This is still the case. Our proposed guidance aims to support firms launching authorised funds to navigate these questions.

## Authority of manager

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- 2.10** The effect of the rules in COLL and the OEIC Regulations is that the firm responsible for maintaining the register needs to be able to make unilateral updates to it. This may not be the default operating model for some DLT networks.
- 2.11** Our proposed guidance confirms that records formed by reference to a series of transactions can be compatible with our rules. This includes the use of DLT functionality to 'burn' and 'mint' tokens or the creation of subsequent records which 'unwind' incorrect entries or create new ones. Equally, the firm responsible for the register could update the register through direct control of private keys, through having a 'master-node' functionality or through a contractual relationship with unitholders.

**Question 1:** Does the proposed guidance provide adequate clarity on how firms can use DLT to support the operation of fund registers?

**Question 2:** Are there any challenges in meeting the current requirements where DLT platforms are used, or in respect of emerging use-cases?

## Smart contracts and eligibility verification

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- 2.12** DLT may improve the accurate functioning of unitholder register processes. It may allow entities other than the manager, such as distributors and investors, to instruct or request amendments to the register. Transfers of units between investors, referred to as 'peer-to-peer' transactions, may also become more widely used.

- 2.13** This may require firms to consider additional technology controls to ensure transfers meet our existing rules and terms in scheme documents. These controls could include arrangements to transfer tokens only to known account numbers, verified by the manager as belonging to a specific eligible investor, often referred to as 'whitelisting', or an 'allow list', referencing a set of addresses.
- 2.14** Our proposed guidance confirms firms can use eligibility verification systems to decide if investors meet broader criteria, for example compliance with minimum holding limits or having a particular tax status. As an example, processes based on the ERC-3643 token standard.
- 2.15** COLL and the OEIC Regulations require the register of unitholders in an authorised fund to be complete and accurate. The manager also needs systems to monitor the amount and status of units in issue, including identification of aggregate positions. Our proposed guidance clarifies that managers can comply with our rules where positions of unitholders are held through different wallets as long as the overall platform can provide reporting of units held at unitholder level.
- 2.16** Systems which operate on the basis of a 'deny list' (sometimes known as "blacklisted") for specified wallet addresses may require additional verification steps to ensure adequate Know Your Customer (KYC) checks. This is particularly the case where an individual or entity may be able to establish new addresses or identities readily on-chain and where information on the controlling party, for example whether they are a target investor for a particular fund, may be unknown.
- 2.17** Through our stakeholder engagement, we are exploring evolving industry standards, including audit controls for smart contracts, and how we and other supervisory bodies can support emerging standards and best practice. Firms should have regard to data confidentiality and privacy legislation, particularly where public networks are used and records are not secured through encryption. In this assessment, firms should recognise that records may be permanent and immutable as DLT networks operate on the basis of recording a chain of all previous transactions. Emerging technology such as quantum computing may lead to historic data being compromised.

**Question 3:** Do our existing rules and proposed guidance provide sufficient flexibility to allow for firms operating the register to use smart contracts for the purposes above?

**Question 4:** What role can regulators play in supporting the development of token standards that promote effective governance and positive consumer outcomes?

## Managing network risks

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- 2.18** Where records on DLT networks are used to maintain a fund register, the manager should have alternative processes and contingencies to allow for unitholder operations in exceptional network outage events. This includes allowing for the fund to be

wound-up and investor assets and cash returned. We proposed in Chapter 3 of CP25/25 that using a permissionless network should not be treated as an outsourcing arrangement. Chapter 4 of that consultation outlined how we expect cryptoasset firms to comply and implement our existing operational resilience framework and we plan to consult next year on non-Handbook guidance on the use of DLTs to provide further clarity. Subject to the respective consultation processes, we expect firms to consider any additional guidance when using public networks to support register processes.

- 2.19** COLL and the OEIC Regulations require the register to be reproduced in legible form, in the UK and to be accessible to the depositary, regulator and unitholders. Our proposed guidance clarifies that firms can use systems that, for example, combine on- and off-chain records to achieve this where it cannot be achieved fully on-chain, as long as the records can be merged to meet unitholder inspection requirements and provide aggregate unitholder data.
- 2.20** The use of a public or consortium-based network for issuing and settlement of tokens could create conflicts of laws that may bring into doubt whether the fund has legal domicile and jurisdiction for service in the UK. 'Mirroring' arrangements, where conventional technology books and records are held off-chain, may limit the ability to fully benefit from use of DLT. Firms should consider the extent of activity carried out in the UK when assessing if a proposed operating model satisfies the requirements of COLL and the OEIC Regulations.
- 2.21** Firms must consider whether they and any service providers are required to be registered under the Money Laundering Regulations (MLRs) to support the proposed operational and tokenisation model. This includes where the firm or the fund is required to hold cryptoassets, even in small volumes to cover transaction charges, often referred to as 'gas fees', used to pay some platforms. The Treasury's draft statutory instrument exempts firms who are performing certain regulated activities for specified investment cryptoassets from having to register under the MLRs. We will continue to work with the Treasury as this regime is formed.
- 2.22** The additional transparency from DLT may result in unitholder deals or dealing intentions being publicly visible on chain ahead of transactions in underlying securities or assets. Where relevant, firms should consider the implications of this in product design and ongoing liquidity monitoring controls, to ensure that investors are not disadvantaged.

**Question 5:** Do our COLL rules and proposed guidance provide sufficient flexibility to support fund tokenisation use-cases that use public networks?

## Chapter 3

# Fund efficiency and direct dealing in authorised funds

### Introduction

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- 3.1** This chapter sets out proposals to introduce a new direct dealing model for processing unitholder deals in units of authorised funds, where the fund or its depositary acts as principal in unit deals with end investors, rather than the authorised fund manager (AFM).
- 3.2** Direct dealing may help AFMs to transition to a tokenised fund environment, as AFMs no longer need to perform back-to-back transactions with investors and the fund. This additional flexibility and choice will allow AFMs to decide the most efficient dealing model for a given fund and its investors and distribution channels. The proposals in this chapter are relevant to all authorised funds, not only tokenised funds.
- 3.3** Introducing these rules now will allow firms to consider changes to fund operations and platforms to address direct dealing in parallel with changes to implement T+1 securities settlement by October 2027, together with any plans for fund tokenisation.

**Question 6:** Do the proposals in this Chapter provide adequate flexibility for firms considering tokenisation and the migration to T+1 securities settlement?

### Direct Dealing in Authorised Funds

- 3.4** DP23/02 explored how our fund rules could be made more effective or proportionate, to address market developments and make better use of technology in fund operations. This included the Investment Association's (IA) proposal for an alternative model for unit dealing in authorised funds, Direct 2 Fund or D2F.
- 3.5** Respondents to the DP strongly supported D2F, subject to further consideration of identified legal and operational questions, including on the depositary's role. We have continued to engage with the IA's working group, the UK Depositary Association and other industry stakeholders to progress the model.
- 3.6** Under current UK market practice, the AFM generally acts as principal in unit deals with end investors, rather than the fund itself. The AFM buys units from redeeming investors (redemptions) and sells units to subscribing investors (sales). To do this, the AFM maintains a float of units in the fund, commonly referred to as the manager's 'box', and initiates separate direct transactions with the fund or depositary to issue or cancel units it holds to manage the level of units in each fund in the box.
- 3.7** Many AFMs operate a zero or flat box policy. This means all unitholder deals are replicated in back-to-back transactions with the fund, or the AFM maintains a normally

fixed (de minimis) level of units to deal with administrative or operational errors. However, the nature of the principal model means that investors, and the fund, have interim exposure to the AFM during the dealing process. The dealing model creates significant operational overheads for the AFM, including the costs of complying with our client money rules and prudential implications of the balance sheet exposure due to acting as principal.

- 3.8** The D2F model was proposed to manage these exposures and allow for a potentially simpler operating model. This simpler model means unitholder deals are affected through direct issue and cancellation of units in the fund, in exchange for settlement of cash directly between investors and the fund. This is technically permitted under our current rules. However, many of our rules are drafted on the basis of the AFM dealing as principal, and do not allow for some features that industry participants have suggested would make operational practice more efficient.
- 3.9** The D2F model is consistent with practice in other fund domiciles and will allow UK firms and service providers to more easily apply global operating models.

### **Introduction as an optional, alternative operating model.**

- 3.10** We will support use of both direct dealing, including in the form of D2F, and the existing box/principal model, both of which are an effective means of delivering good outcomes for consumers. We recognise that AFMs are allowed to commit their own capital to a fund, via the box, and participate in its risk and returns. If the manager is willing to commit capital, the box can be used to 'smooth' unitholder deals over a period. This can prevent frictional transactions in underlying fund assets or cover any gap in investors not paying for purchased units by the settlement date.
- 3.11** Our rules set controls on the AFM's box operations and the role of the depositary. These controls aim to ensure that box decisions are made within a short period of the valuation point, that any modifications to box instructions must have the depositary's consent and that the fund is reimbursed where errors occur. The price of unit sales and redemptions (or maximum range of prices) must also reflect the issue and cancellation price of units, excluding fees, disclosed in the prospectus.
- 3.12** We have strengthened these controls in recent years. We strengthened how client money rules apply to cash held for settling transactions in units ([PS14/09](#)). AFMs must treat cash linked to the issue or redemption of units as client money, where not paid to the depositary, fund or investor by close of the following business day, as set out in CASS 7.11.21R. This reduces risks of an AFM's failure or insolvency while unit deals are in progress. We also introduced rules through the Asset Management Market Study ([PS18/08](#)) that require AFMs to pay profits from riskless netting of unitholder deals in dual priced funds into the fund.
- 3.13** Our existing rules provide mechanisms for unit deals to be made on a direct basis using cash, or for the ICVC or depositary to issue or cancel units in exchange for other assets, known as an in-specie issue or cancellation. In specie transactions are routine but infrequent and are typically used by institutional investors with the capability to receive or deliver a pro-rata share of assets in a fund.

- 3.14** We are introducing flexibility to our rules to support broader use of direct dealing, including the D2F model, as an optional, alternative process. AFMs may operate solely on a direct dealing basis, and we propose to remove the requirement to deal as principal in COLL 6.2.16R, where unitholders are offered the ability to deal directly with the fund on the equivalent terms. Equally, AFM's will remain able to deal as principal and operate a box, allowing them to adopt the most efficient unit dealing model for their funds.

**Question 7: Do you support the introduction of an optional regime to allow for direct dealing in authorised funds?**

**Impact on our Handbook**

- 3.15** We propose amending our existing rules within the current structure and retaining existing definitions wherever possible. COLL 6.2.13R expects the AFM will arrange for payment of cash or cleared funds to the ICVC or depositary following the issue of units. Where a fund uses direct dealing, it will be investors who are contractually obliged to make this payment. The manager will need to be satisfied that there are appropriate arrangements in place to ensure the target investors in the fund will be able to settle deals in the specified time period.
- 3.16** The AFM can cancel deals in fund units where an investor does not complete them. Where the manager acts as principal, it will bear the costs of deciding not to recover costs incurred from that investor. In a direct deal, the manager should still bear the costs where it makes this choice, rather than the fund.
- 3.17** So we propose requiring AFMs to cover interest costs for late payments where the value exceeds a de-minimis level agreed with the depositary and the AFM has opted not to cancel deals. We will implement this by an amendment to COLL 6.2.13R.
- 3.18** A consequence of direct dealing is that cash routinely flows between unitholders and the fund or depositary. This removes the interim exposure to the AFM, and the resultant requirement for the AFM to apply our client money rules. Cash received by the fund forms part of scheme property and is held subject to our normal rules in COLL governing the opening of accounts at eligible banks, regular performance of account reconciliations and depositary oversight. The AFM may still need to hold dealing cash as client money where, for example, funds cannot be reconciled or payments to investor bank accounts are returned.
- 3.19** We also propose consequential changes to rules in COLL, including those governing suspension of dealing, the redemption determination process for LTAF and our controls on investor eligibility for ACS, to ensure the effect of these rules is maintained where AFMs do not deal as principal.



## The Issues and Cancellations Account

- 3.20** The D2F model that we propose includes a specific bank account, referred to as an 'Issues and Cancellations Account' (or IAC), to receive payments from, and make payments to, investors. This is consistent with practice in other fund centres such as Ireland and Luxembourg. We propose to recognise the purpose of such an account in COLL, and the respective responsibilities of the AFM and depositary, to ensure that fund accounting, oversight and governance processes operate effectively where this type of account is used.
- 3.21** Funds are commonly operated as 'umbrella' structures with multiple sub-funds providing different investment strategies or rights to investors. Each sub-fund is a functionally separate pool of assets and is priced and accounted for individually. However, an umbrella fund can be simpler to administer than a range of standalone funds and offers potential economies of scale. We propose to allow firms to operate IAC accounts at umbrella level, subject to certain safeguards.
- 3.22** Under the D2F model, payments from individual investors for deals carried out at a given valuation point can be aggregated in the IAC so that a single bulk transfer is made from the IAC to the relevant sub-fund on the settlement date for that valuation point. This resembles cash flow processes in the box/principal model where a single payment is paid into a sub-fund on settlement date for units issued to the AFM. Investors and distributors may also be able to make a single payment into the IAC for deals in multiple sub-funds in that umbrella, reducing the number of payment accounts in use. Our discussion with industry has confirmed that this functionality is a key requirement for D2F to achieve full commercial uptake.
- 3.23** The IAC would constitute scheme property of the relevant fund and could be opened in the name of an ICVC, or the depositary on behalf of an ICVC, an AUT or an ACS that is a co-ownership scheme. In 2011, the UK introduced a protected cell regime for ICVCs. Under this, the assets of a sub-fund belong exclusively to that sub-fund and cannot be used to discharge liabilities of any other person, including the ICVC itself or another sub-fund. Any legal agreements an ICVC enters into must reflect this segregated liability. Any provisions or activity that is inconsistent with this are void. Umbrella AUTs and co-ownership ACS must be managed in accordance with similar standards.
- 3.24** An umbrella IAC may not be suitable for all umbrellas. So we are proposing a requirement for AFMs to ensure that using an IAC does not pose undue risk to unitholders. For example, if there is an increased risk of contagion due to the specifics of any particular sub-fund, or there is reason to anticipate higher than normal volumes of late payments due to a fund's target market. We therefore propose allowing an umbrella to have both an omnibus IAC structure for more than one sub-funds and individual IACs used solely for specific sub-funds.
- 3.25** To manage risks from omnibus IAC accounts, and to comply with the principles of segregated assets and liabilities, AFMs must promptly identify individual payments and attribute them to a specific sub-fund. Sums that cannot be attributed must be returned to the sender or moved to a client money account maintained by the AFM by close of the business day following receipt. The operation and governance arrangements for the IAC, including reconciliation of cash movements, must ensure these conditions are met.



- 3.26** The IAC should be operated in a way that ensures sums received ahead of settlement date on one sub-fund cannot be used to cover sums unpaid by incoming investors on another. Similarly, an IAC should not go overdrawn. If either of these scenarios happen, it is possible that assets of a sub-fund have been used to meet liabilities of another. As cash in the IAC will form part of scheme property, the fund will bear the credit risk to the bank operating the account as with any other cash held by the fund.
- 3.27** Our existing investment and borrowing powers rules for both UCITS and NURS limit the proportion of scheme property that may consist of deposits with a single body to 20%. These rules also limit the extent and persistency of fund borrowing. These remain core risk controls for retail schemes and the balance in the IAC, or proportion of any overdraft, attributed to each fund or sub-fund will form part of this exposure to keep these controls effective.
- 3.28** Consistent with this principle, we also propose to withdraw a specific element of existing guidance in our UCITS and NURS investment and borrowing powers for all funds, independent of the model used for unit dealing. At present COLL 5.2.11AG (3) and COLL 5.6.7AG (3) indicate that all uninvested capital cash held with the depositary, or its group for UCITS, should be included when calculating exposure to the depositary. Our intention was to avoid limiting the value of income that a fund could hold pending distribution, by excluding such cash from exposure limit calculations. We note that AFMs' cash management and diversification tools have developed in the intervening period and that income cash is not subject to specific ring-fencing if there is a default. If this proposal is implemented, we will provide a 12-month period for any affected firms to adjust operational processes to account for withdrawal of the guidance. We invite specific feedback on this point.
- 3.29** Where breaches of our control requirements do occur, the AFM should report this to the depositary, as with current expectations. The depositary should assess the materiality of any error, and any implications for the sufficiency of the AFM's controls, as part of its ongoing oversight of the fund and AFM, including the impact of any consequential pricing errors.
- 3.30** We know some scenarios, including processing very large issue and cancellation orders or distribution payments, may require a scheme to hold more than 20% of scheme property with a specific bank. Where this has occurred due to circumstances beyond the AFM's or depositary's control, our rules provide existing forbearance to allow for resolution as soon as reasonably practical in the interests of unitholders. This could be achieved through processing the relevant payment on the settlement date disclosed to unitholders.
- 3.31** Our rules also require the depositary to reconcile all cash flows at fund level, ensure that subscription monies from investors reach the fund and reconcile the number of units in issue between the fund accounting records and those of the transfer agent. As money held in the IAC will be scheme property, adopting D2F may increase the number of accounts on which depositary oversight is carried out.
- 3.32** As the D2F model is broadly consistent with practice in other jurisdictions, including within the EU, we do not expect changes to the AIFMD and UCITS V cash flow monitoring regime will be needed to allow us to introduce D2F.

- 3.33** We want to provide flexibility for AFMs to establish optimal reconciliation procedures for a specific fund or range of funds, based on the intended investor base, dealing frequency and distribution strategy.

**Question 8:** Do our proposed requirements for operation of the IAC provide a proportionate control environment while ensuring funds are operated, and overseen, in line with principles of segregated liability?

**Question 9:** Do you agree with our proposals in respect of overdrafts and limits on fund exposure to a given bank or group? If not, why?

**Question 10:** Do you agree we should include all cash held at a given bank within our spread of risk rules for UCITS and NURS? If not, why?

### The IAC as Scheme Property

- 3.34** Under COLL 6.7.17R and COLL 15.8.15PR, assets and payments that are not attributable to a single sub-fund must be allocated between the sub-funds in a way which is fair to unitholders generally. Sums in the IAC that have been attributed will appear in the accounts for a particular sub-fund. However, while unattributed sums in the IAC are scheme property, including these as a component of the NAV for individual sub-funds may create accounting errors.
- 3.35** After reconciliation controls have been completed, any unattributed sums should be promptly removed from the IAC and returned to sender or a client money account. Pending completion of reconciliation controls, sums in the account should be treated as scheme property. The fund still bears the credit risk to the bank holding the cash and so these sums should be included in exposure calculations. However, sums that the AFM reasonably believes it may be unable to attribute to a sub-fund should not form part of the price of units.
- 3.36** Firms may want to use alternative accounting mechanisms that achieve this same effect. For example, for pricing purposes, the AFM may only consider the outstanding aggregate share issue debtors and creditors in the valuation of a sub-fund, rather than the account balance on the IAC. However, this must be supported by an undertaking from the AFM that the IAC balance can be considered zero for the purposes of a specific valuation point.
- 3.37** We also propose clarifying and re-stating certain existing rules where existing Handbook text is inconsistent. This includes COLL 5.2.13R, which sets limits on investment in collective investment schemes by reference to the 'value of the UCITS' rather than scheme property. Similarly, COLL 5.5.3R cash and near cash, refers to holding cash to support redemptions. We propose to replace this with a broader reference to unit dealing to support broader use of direct dealing.

- 3.38** Our approach to introducing direct dealing for LTAFs and QIS' follows the general position established for UCITS and NURS. However, we propose a modification to address the presence of omnibus or individual IACs in LTAFs. COLL 15.2.6R allows the AFM of an LTAF discretion not to appoint an external valuer where the scheme property of an LTAF is solely other collective investment schemes (CIS)/alternative investment funds (AIFs) and these have an external valuer. The intended scope of this rule was to set appropriate standards for the valuation of long-term assets, rather than to require all scheme property of an LTAF to be in CIS/AIF to use the exemption. We propose amending this rule so that cash or assets such as gilts held for liquidity purposes can be valued by the AFM using a conventional approach.

**Question 11:** Do you agree with our proposed accounting controls in respect of use of IAC? If not, why?

**Question 12:** Do you agree with our proposal to provide additional clarity on cash held by LTAF and the requirement to appoint an external valuer? If not, why?

## Investor Disclosures and Changes to Existing Schemes

- 3.39** Our existing rules on the contents of instruments which constitute a scheme and fund prospectuses require firms to disclose procedures for unit dealing and consequences of participation in the scheme. These rules do not require any substantial amendments, but our draft instrument addresses some consequential changes and requires that certain information is disclosed to investors.
- 3.40** We propose requiring the prospectus of a direct dealing fund to provide a brief summary of the implications of using an IAC where an investor or the fund becomes insolvent or cannot make payments. This should include the potential impacts to both ongoing investors in the fund, and those with deals in progress who have paid cash into the IAC or are awaiting payments from the fund, and the application of the Financial Services Compensation Scheme (FSCS) in such scenarios.
- 3.41** If the AFM has correctly considered the impact of introducing the IAC, eg there are no sub-funds in the umbrella with a substantially different risk/investor base using the same IAC, then introducing direct dealing in this context could be classed as a 'notifiable' change in operational policy. Direct investors will require reasonable notice as bank account details for payments will need to be amended.
- 3.42** In a scheme of arrangement, the status of unattributed sums must be adequately considered. For example, if a fund is split, the remaining fund may be significantly smaller than the assets transferred out. This would result in remaining investors having an undue exposure to the credit risk of the IAC holding bank due to unattributed sums. So we propose that unattributed sums in an IAC are resolved before making a scheme of arrangement, for example by transfer to a client money account.

**Question 13: Do you agree with our proposals in respect of investor disclosures and communications? If not, why?**

**Responsibility for Anti-Money Laundering Controls**

- 3.43** Industry participants and trade bodies, including the UK Depositary Association, have pointed out that broader use of direct dealing may alter existing roles and responsibilities when performing anti-money laundering controls on end investors in authorised funds. Under a box/principal model, the AFM contracts with end investors and is therefore considered a relevant person for the purposes of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017/692.
- 3.44** Under a direct dealing model, unit deals take place between the investor and the fund or depositary. Where the fund is an ICVC, the ICVC would itself be the relevant entity, and the AFM, as the authorised corporate director of the ICVC, could undertake these functions. Where the fund is an ACS or AUT, the fund itself does not have legal personality. Identifying the relevant person or persons may require specific analysis based on the instrument constituting the scheme and the effect of broader UK legislation. We do not have a definitive view on this, and are exploring with industry participants how we can provide flexibility to ensure that all authorised fund legal structures can make broader use of direct. Firms should take specific advice where necessary on individual fund structures.
- 3.45** The AFM is responsible for the relationship with end investors in the scheme. We accept that in many cases it may not be economically viable or practical for the depositary to undertake responsibility for obligations under money laundering and similar legislation to transactions with end investors.
- 3.46** Our intention is that our consultation proposals will be available for all types of legal entity from the effective date of the final rules. Firms proposing to launch new funds using direct dealing, or to convert existing funds to direct dealing, will need to ensure scheme documents are clear about who has responsibility for AML and will carry out this activity.
- 3.47** The Joint Money Laundering Steering Group (JMLSG) produces detailed guidance for UK firms on how to comply with their legal and regulatory obligations for money laundering and terrorist financing. This guidance will remain a key resource for firms. When considering a firm's systems and controls against money laundering and terrorist financing, we will consider whether the firm has followed relevant provisions of the JMLSG's guidance, and any guidance we have issued.

**Dealing with small sums arising from fund operations**

- 3.48** We know that, in some circumstances, AFMs and depositaries may identify small sums remaining part of scheme property following a scheme of arrangement, during or following the process of termination or winding up of a fund (orphan monies). These sums can often be immaterial or of such low value that prevents efficient distribution when divided among fund investors. The administrative costs of managing such sums can often be greater than their value.

- 3.49** Firms have approached us about including powers within schemes of arrangement or notification of the winding up of a fund or termination of a sub-fund to pay such sums to charity.
- 3.50** In August 2024, we introduced new rules to allow AFMs to participate in the expanded second phase of the Dormant Assets Scheme (DAS) established through the Dormant Assets Act 2022. This included powers to transfer orphan monies to the DAS, subject to the AFM maintaining records and the AFM asking contactable unitholders to renounce any residual interests in the fund. We recognised that for very small sums, this may be impractical for AFMs to action and that we would consider alternative options for future consultation.
- 3.51** We want to provide an efficient mechanism for AFMs and depositaries to handle these very small sums. We will permit disclosures within new scheme of arrangement or winding up notifications allowing non-material sums to be paid to a recognised charity during the winding up or termination process. The AFM and depositary should agree a de minimis amount on a per unitholder or per fund basis and how these sums should be treated.
- 3.52** This kind of mechanism may not have been disclosed in historic mergers or fund closures. When setting our final rules on extension of the DAS, we also noted that in many scenarios, viable records of unitholders might no longer exist, potentially preventing use of the DAS. While COLL provides for such monies to be paid into court, this process also presents practical difficulties, and an alternative would also be helpful. We intend to explore further with firms what additional powers would help deal with legacy sums, subject to compliance with broader legislation including Regulation 33 (4) of the OEIC Regulations.

**Question 14:** Do you agree that fund AFMs should bear the cost of exercising discretion for late payments? If not, why?

**Question 15:** Are there scenarios where this may not be appropriate or such costs should be allocated differently?

**Question 16:** Do you support introducing broader powers to deal with historic orphan monies? What legal or regulatory barriers might prevent introducing such a process?

## Chapter 4

# Fund tokenisation roadmap

- 4.1** A March 2024 report from the AMT's TWG, [Further Fund Tokenisation](#), identified 2 priority use-cases that firms would test, with support from the UK authorities:
- Fully on-chain investment markets, with tokenised funds investing in tokenised securities such as fixed-income or other asset classes.
  - The use of Tokenised Money Market Fund (tMMF) units as collateral where eligible under the UK regime for non-centrally cleared derivative contracts.
- 4.2** This chapter explores how our rules can support these next steps and use-cases, and where our rules may require further development. We want to be ambitious and apply a flexible approach. We will collaborate with industry on prioritisation and the tools we use.
- 4.3** We summarise feedback to Chapter 7 of CP23/28, 'Updating the regime for Money Market Funds'. We also explore how further use of tMMFs can support efficient exchange of collateral.
- 4.4** We also set out our thinking and early positions on how funds could operate fully on-chain, using money or money-like instruments that can operate with programmable ledgers for settlement. We invite views on an interim environment that could operate ahead of introducing the UK's regime for qualifying stablecoins. We also want to confirm our expectation that authorised funds can hold cryptoassets that are specified investments, including DIGIT, and confirm that authorised funds can use public DLT networks.
- 4.5** The UK Government announced its [Wholesale Financial Markets Digital Strategy](#) in July 2025, setting out the UK's ambition to take a leading role in realising the benefits of DLT. The Strategy includes support for digital payments, the Treasury's DIGIT pilot and encourages the development of collateral mobility solutions. The Government and regulators intend to work with industry to encourage live market activity, both experimentally and by supporting rapid scaling up and roll out of commercial products. The Government will announce a Digital Markets Champion to co-ordinate this collaboration. We continue to work with firms on how to progress a staged process towards increasing the adoption of tokenisation and DLT.

### ***Tokenised money market funds and response to CP23/28***

- 4.6** CP23/28 set out proposals to mitigate financial stability risks and formed part of delivery of the Smarter Regulatory Framework for financial services, replacing retained EU law with regulation tailored to the UK.
- 4.7** Chapter 7 asked questions on future developments in the use of MMF units, including use as collateral, and how tokenisation might help. Our questions focused on MMFs posted as collateral in non-centrally cleared derivatives transactions to mitigate counterparty credit risk. Following the 2008 financial crisis, global regulators introduced the Uncleared Margin Rules (UMR), which mandated the exchange of initial margin

(IM) and variation margin (VM) for uncleared over-the-counter (OTC) derivatives. This increased demand for high-quality, liquid collateral that can be universally accepted.

- 4.8** Respondents to CP23/28 were very supportive of investors posting and accepting MMF units as collateral for non-centrally cleared derivatives. Many noted that posting MMF units would reduce the market pressure of forced sales, as seen in recent market events. They referenced the 2022 mini-budget event when Liability Driven Investment (LDI) pools were forced to sell gilts or other assets to realise cash which amplified a downward price spiral. Counterparties receiving this cash would often then invest it back into MMFs. Respondents said this cycle of transactions out of and then back into MMFs would have been unnecessary if MMF units were acceptable as collateral. There was also strong support for tokenisation as a development which would reduce market friction for the benefit of overall financial stability, including in a stress scenario.
- 4.9** Further advantages noted by respondents included a reduction in trading costs, increased efficiency in transferring assets, and an increased ability for banks to rely on short-term funding markets (STFM). The use of MMFs also presented advantages for counterparties' liquidity and treasury management activity by providing an alternative to cash buffers. Some respondents suggested that holding cash to post collateral may reduce portfolio performance by forgoing the higher level of interest which MMFs pay. Respondents noted a benefit of posting MMF units would be for investors to enjoy lower counterparty risk as the MMFs provide a spread of risk across underlying banks and issuers.
- 4.10** We also asked about potential barriers to the use of MMFs as collateral. Many respondents suggested that transferring MMF units to counterparties would be onerous. This was due to the requirement of a stock transfer form and the lack of an obligation for managers to process these forms on the same day. Some respondents also noted that it may be difficult for the MMF manager to know their underlying clients if investors are able to transfer MMF units freely. This could complicate liquidity management in MMFs or mask investors with a sizeable individual position. Respondents also suggested that some investors may struggle to understand the underlying assets in an MMF and to assess whether they are eligible for collateral purposes, or to calculate how the value of an MMF should be discounted to reflect ineligible underlying assets.
- 4.11** We asked respondents to give feedback on the potential for tokenised MMF (tMMF) units to overcome these barriers. They generally said there are many advantages to tMMFs in a collateral context. The use of a distributed immutable ledger shared among multiple parties can provide a transparent record of ownership and transactions could reduce disputes over collateral eligibility or valuation. It also enables investors to verify and track their assets in real time, increasing trust among market participants.
- 4.12** Others pointed towards operational efficiency: they stated that DLT offers the possibility of automating collateral management processes, reducing operational costs and errors, and could provide almost instantaneous settlement (atomic settlement). Smart contracts could execute Credit Support Annex (CSA) terms automatically streamlining margin calculation and settlement. Some respondents also suggested that tokenisation could make partial shares of MMF units feasible. This would potentially increase the investor base and democratise MMF investment.



- 4.13** We asked what disadvantages and challenges might arise where tMMFs are used as collateral. Many respondents discussed issues around differing regulatory frameworks across jurisdictions. They reported uncertainty about the eligibility of MMFs as collateral under UK EMIR, as well as inconsistent interpretation of terms such as 'highly liquid' and 'low risk' which directly impact the eligibility of MMF units. Different types of tokenisation platform have differing degrees of decentralisation. Responses indicated this may add to the legal uncertainty about the nature of ownership rights of assets.
- 4.14** Some respondents noted that the tokenisation of MMF units might even exacerbate a liquidity run during times of stress. The more transparent record of transactions would enable investors to see a rapid sell off in real time. This may spur investors to redeem simultaneously, putting further procyclical pressure on asset prices. If the underlying assets of the MMF units experience increased liquidity challenges, the ability of a MMF to meet redemption requests may be undermined. This diminishes the attractiveness of tMMFs for use as collateral. Counterparties in transactions to fulfil margin requirements will prefer collateral that is universally accepted, highly liquid and stable in value. A counterparty may also be reluctant to accept collateral which it cannot itself deliver as collateral in further transactions.
- 4.15** Respondents also highlighted operational and technological risks of using tMMFs as collateral. Some noted cybersecurity threats, data integrity and consistency, data privacy and access as well as money laundering and KYC risks. One respondent suggested that smart contracts could introduce risk if they do not operate as expected or are compromised by a bad actor.

### Our response

We acknowledge the balanced arguments put forward by respondents, and the strong support for posting MMF units as collateral. We have considered this feedback, including where respondents highlighted existing regulatory and operational barriers on broader use of tMMFs for collateral.

We recognise that the use of MMF units as collateral could mitigate procyclical effects in market stress scenarios, and that MMFs offer a means of delivering a diversified pool of exposures. We agree that tokenisation has some specific utility in facilitating use of MMF units as collateral. This includes reducing frictions associated with transfers of units in conventional MMFs and potentially reducing some reconciliations. We also acknowledge the possibility that the tokenisation of MMFs has the potential to exacerbate runs during times of stress, as noted by respondents.

We know industry sees the use of tMMFs for collateral as a near term opportunity. Collateral is exchanged free of payment, so an accepted on-chain cash instrument is not required for settlement. A number of firms have carried out pilot test projects in the UK. For example, Aberdeen Investments and Archax collaborated on an initiative using tokenised units of Aberdeen Investment's money market fund and UK gilts as collateral for foreign exchange trades with Lloyds Banking Group.



We want to support firms taking tokenised collateral initiatives forward. Widespread adoption will depend on legal and regulatory certainty, particularly on a cross-jurisdiction basis, and a shift in market practices for some exposures. We are continuing our work with industry both in the UK, alongside the Bank of England, and internationally, through Project Guardian, the IA's Investment Fund 3.0 (IF3) Lab and ongoing work within international standard setting bodies.

UK EMIR does not distinguish between tokenised and conventional financial instruments when determining eligibility of particular instruments for collateral regulation purposes. There are also no restrictions on use of MMFs where firms provide collateral for uncleared derivatives outside of the scope of UK EMIR.

UK UCITS (including UK UCITS MMFs of any MMF category), are eligible to have their units exchanged as collateral for uncleared transactions under UK EMIR, in accordance with the terms of Article 5 of RTS 2016/2251, and where an appropriate haircut has been applied for any instruments that do not fall under Article 4(1). This is provided they meet the relevant criteria under Article 5, and invest in at least some of the instruments that fall under Article 4(1). In addition, non-UK funds which meet the criteria set out in Article 7(2)(b) of the Large Exposures (CRR) Part of the Prudential Regulation Authority's (PRA) Rulebook are eligible to have their units exchanged as collateral, provided they meet the relevant criteria under Article 5A of RTS 2016/2251. In practice, this means that certain non-UK MMFs that invest only in bank deposits and public debt are potentially eligible.

Any extension of eligible MMF categories must be within an acceptable risk tolerance. Specifically, that ensures collateral remains safe, liquid and assessable during market events, large levels of redemption requests and insolvency scenarios. Our future policy work will reflect the need to maintain strong prudential standards.

We recognise that the tokenisation of MMFs and the use of tokens as collateral also has the potential to create new risks in the financial system. In 2024, the Bank of England's Financial Policy Committee noted that while the use of tMMF units as collateral could reduce the need for redemptions in stress events, new risks could be created in more severe stress events where funds need to suspend redemptions, or where confidence was lost that the MMF unit could be redeemed at par, and where those funds units are being held as collateral across the financial system.

The DSS offers a proportionate route to becoming a Bank-regulated financial market infrastructure provider, capable of settling instruments that fall inside or outside of the existing scope of the UK Central Securities Depositories Regulation (UK CSDR), including MMFs. We will both work with stakeholders to build on the opportunities presented by

DSS and to support firms wishing to explore use of tMMFs as collateral outside the DSS.

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### ***Supporting use of stablecoins to settle unit deals***

- 4.16** Firms have approached us about using digital currencies and stablecoins to support pilot activity and commercial products.
- 4.17** To facilitate fully on-chain funds, the fund, its fund manager, its investors and service providers may need to hold digital assets to facilitate unit deals and distribution payments. This may include digital cash instruments such as tokenised deposits, money-like instruments such as stablecoins, or, on a longer timeframe, digital payments through central banks. The same parties may also need to hold cryptoassets, where these are native to a particular blockchain network, to pay gas fees. Gas fees are similar to a transaction charge and fund the operation of a blockchain network or pay those who operate it.

This paper does not explore the ability of authorised funds to hold cryptoassets for investment purposes. We intend to conduct a future, broader review of the eligible assets regime for authorised funds. We will consider whether the ability of funds to hold non-financial cryptoassets for investment could be part of that review. We expect that funds should be denominated in fiat currency. We invite feedback on how digital cash instruments and stablecoins can be used as a functional tool for cash transfers, and the use of cryptoassets to pay gas fees.

- 4.18** Operating models may vary across firms' proposals, particularly whether the fund operates on a direct dealing or box model. In a box model, the fund itself may not need to hold cryptoassets to settle deals if conversion takes place on the AFM balance sheet. Where a fund needs to hold cryptoassets this could be by the fund, or the AFM or depositary on behalf of the fund.
- 4.19** Firms are exploring this at a time when there are changes underway in relation to stablecoins and other cryptoassets. In May 2025, we consulted in [CP25/14](#) on proposed rules and guidance for stablecoin issuance and cryptoasset custody. This followed the Treasury's publication of a draft Statutory Instrument and Policy note in April. The draft legislation proposed a definition for qualifying stablecoins and a new regulated activity for stablecoin issuance. We want to support the development of qualifying stablecoins and fully on chain funds in the UK.
- 4.20** We are therefore considering how an interim environment for funds, potentially using our sandboxes, or waivers or modifications of existing rules, could support innovation ahead of finalising the UK regime. This would allow firms to launch or test fully on-chain authorised funds. Firms using waivers or the sandbox would need to transition to any final standards once live, as with any other developing environment.

- 4.21** Our rules for authorised funds currently set limits on the categories of assets that funds can invest in or hold for operational and liquidity management purposes. These were developed for conventional assets, and do not always address new risks, nuances of new technology, or assets that are not financial instruments.
- 4.22** COLL 5.2.6AR sets out the general asset eligibility rules for UK UCITS. We think this rule could be amended to allow a new category or categories of asset, or to provide specific exemptions for the use of digital cash instruments and money-like instruments for limited purposes, other than the pursuit of a scheme's investment objectives. In Annex 1 we have set out some suggested amendments to how the rules could be potentially modified for those funds which need this additional flexibility. This could be progressed via a rule modification where the relevant statutory conditions are satisfied, or through an amendment to our rules in a future formal consultation.
- 4.23** Where a firm proposes to use a stablecoin as a settlement asset, the features of that stablecoin should be consistent with the Treasury's proposed definition of qualifying stablecoin. This definition is not limited to UK issued stablecoins. However, it requires the product to seek or purport to maintain a stable value in relation to a referenced fiat currency, through the holding of fiat currency, or fiat currency and other assets. We will review whether UK issued stablecoins would be more appropriate for settlement of deals in authorised funds as the regulatory regime is finalised. Where stablecoins are used as a settlement asset at a systemic level, HMT also has the ability to recognise these as systemic stablecoins, which are subject to dual regulation by the Bank of England and the FCA. The Bank of England and the FCA will explore the use of stablecoins as a settlement asset for wholesale financial market use cases in the DSS.
- 4.24** We do not believe algorithmic stablecoins, or those backed by cryptocurrencies, which would fall outside of the definition of qualifying stablecoin, would be appropriate for settlement of deals in authorised funds.

**Question 17:** Are there any other purposes for which funds, fund managers, or investors may need to hold cryptoassets to support fund operations on-chain?

**Question 18:** Would our potential amendments to COLL provide sufficient flexibility for firms to use digital cash and money like instruments for operational purposes, including unit dealing?

**Question 19:** Would a limited sandbox or standard waivers/modifications be appropriate routes to allow us to develop a final regime in collaboration with industry? What features may be desirable in such a regime?

- 4.25** Alongside eligible assets, our rules for unit dealing also refer to use of fiat cash. For example, COLL 6.2.13R(2) requires the AFM to make payments for units issued in cash or cleared funds except for where in-specie issues take place. To support projects, technical changes to these rules would be required. We ask firms to engage early with

us on the changes required to support a particular initiative, and assess any required waivers and modifications.

- 4.26** Firms may also wish to establish tokenised share classes of existing schemes or establish tokenised feeder funds that hold units in a conventional master scheme. Firms should consider if waivers and modifications would be required.

**Question 20:** Do any other areas of our rules conflict with or prevent use of digital cash instruments or money-like instruments for unit dealing, distribution payments, or for payment of charges and fees?

**Question 21:** Would our existing rules, including the Consumer Duty, provide enough protection for investors if we allow a fund to hold cryptoassets for settlement and fund operational purposes only?

### ***Tokenised financial assets***

- 4.27** Today, most tokenised funds invest in conventional financial assets. The further fund tokenisation report identified funds investing in tokenised financial assets – often known as security tokens or specified investment cryptoassets, such as tokenised bonds – could bring investment management benefits. For example, faster settlement times or lower costs as the number of intermediaries involved in transactions decreases.
- 4.28** We want to support the development of the tokenised asset market. We are supporting firms looking to use the DSS to issue, trade and settle digital securities. This includes where funds use a DSD to settle transactions or invest in tokenised securities issued by DSS participants. We, alongside, the IA, the MAS, and the Investment Management Association of Singapore (IMAS) are exploring the impact of tokenisation from the investor's perspective. This collaboration will study the changing opportunities for investors and how they can share in the benefits of tokenisation. It will support firms in product development to align with consumer protection and market integrity goals as the market undergoes digital change.
- 4.29** Our investment and borrowing rules in COLL do not impose any regulatory barriers to prevent UK authorised funds from investing in tokenised forms of eligible assets. We anticipate that UK authorised funds will be able to invest in digital gilt instruments that are issued under the Treasury's DIGIT pilot. DIGIT will be a digitally native UK Government debt instrument (a transferable security) held on DLT. At Mansion House in July, the government set out its intention that it will issue DIGIT on a platform within the DSS. This included life-cycle events taking place on chain. As confirmed in July 2025, firms will be able to acquire digital Gilts issued through DSS platforms and will be able to settle the cash leg on-chain. Investments in digital Gilts must be aligned with the investment objectives of the scheme as set out in its prospectus. Fund managers may need to discuss their intent to invest in tokenised assets with the depositary to make sure the depositary is satisfied that adequate custody arrangements can be provided for

the investment. Material risks arising from the custody of tokens should be appropriately disclosed to investors.

**Question 22: Are there other associated regulatory, operational or commercial barriers to investing in tokenised assets? What could we do to address these issues?**

### ***Public DLT networks***

- 4.30** Firms have highlighted the benefits of using public DLT networks in fund management. We have seen examples of products where firms use the open nature of public networks to create new distribution channels to reach investors. We have also heard how public networks can support liquidity and treasury management functions where capital is not 'locked' in different private blockchains. We anticipate greater use of public networks to continue. We also expect institutional-grade standards to develop which facilitate interoperability between networks, either through token or smart contract standards (such as ERC-7786), or new networks.
- 4.31** The FSB and IOSCO have identified risks specific to the use of public DLT networks. For example, malicious actors may front-run transaction orders awaiting validation to gain an advantage, or, logic errors in smart contracts, where the underlying code is erroneous, causing unintended and irreversible outcomes. They also identified operational limits to existing networks which make them insufficient to process the large volumes of transactions that go through conventional market infrastructure. These technological and operational risks and limitations may bring consumer protection, market integrity and market stability risks.
- 4.32** In response, there are several initiatives that attempt to enhance network integrity for financial services. For example, the Global Layer One project seeks to develop standards for market infrastructure to enable the interoperability and scale required to support capital markets. Many of these initiatives continue to progress and we will follow developments closely.
- 4.33** We do not object in principle to fund managers using public blockchains. This is provided their use does not prevent firms meeting regulatory obligations. This will require careful consideration of operational resilience and data privacy risks. Our recent consultation paper CP25/25 confirms that we do not consider use of permissionless networks to be an outsourcing arrangement. This allows firms to use a wide range of networks appropriate to their operating model and benefit from the openness of public blockchains to achieve distribution benefits.

## Chapter 5

# Supporting future tokenisation models

### Tomorrow's investor: changing consumer demands

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- 5.1** In this chapter, we explore future tokenisation models put forward by industry. Particularly, how 'composability' (which we explain below) and DLT could help firms to offer consumers more personalised investments that better meet their financial needs.
- 5.2** Technology is driving changes in consumer expectations. Consumers increasingly expect a single, complete and instant relationship with their money. Our Financial Lives Survey (FLS) data shows how younger generations generally prefer a more direct relationship with their investments. 49% of investment platform users are 55 years and above, whereas 47% of users of neo-brokers – more commonly known as trading apps – are aged 18-34. Neo-brokers typically offer consumers low-cost investments in individual (or fractions of) securities, rather than funds.
- 5.3** Similarly, exchange-traded funds (ETFs) have become a popular way for retail investors to access open-ended pooled investment vehicles. The instant ability to trade when the market is open is one of the main drivers behind the popularity of ETFs among younger investors. According to a YouGov and BlackRock survey, the 18–34-year-old investor age range are 80% more likely to hold ETFs than older ranges.
- 5.4** We are aware that many firms see a form of tokenised portfolio management as a way to service this new type of digital investor and facilitate generational wealth transfer. Firms are exploring how tokenising assets and cash flows may enable them to provide investment solutions similar to existing strategies for wealth clients, such as model portfolio services (MPS) or discretionary investment management, at a retail scale.
- 5.5** It is not for us to shape the future of markets; but we welcome views on what role we should play and how our regulations need to evolve to support future visions.

**Question 23:** How are changing investor habits and expectations influencing the design of tokenised products?

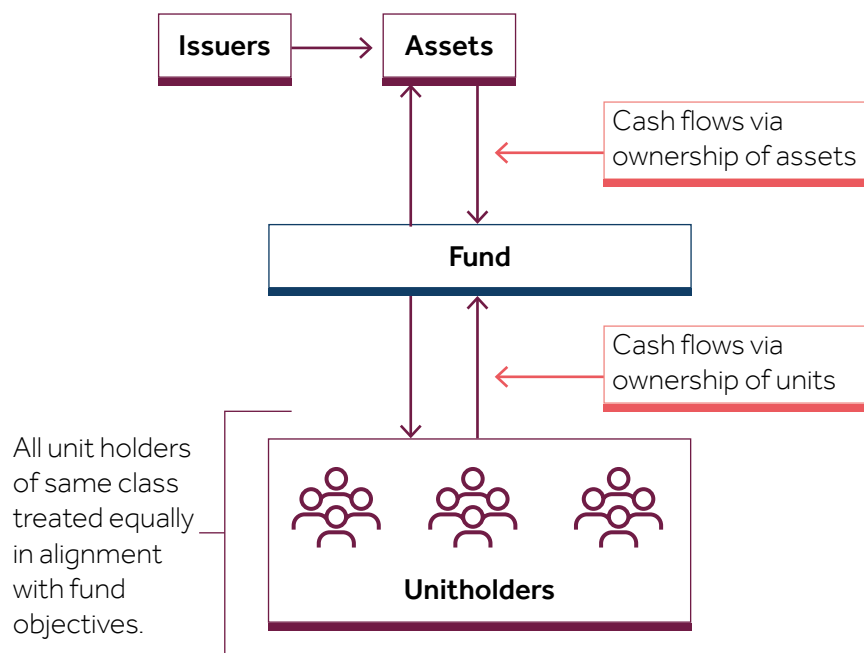
### Three stages to progress tokenisation

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- 5.6** Many firms have discussed a future where DLT and tokenisation enables personalised portfolio management on a retail client-by-client basis. Most agree this will happen over 3 phases.
- 5.7** **Tokenisation of funds:** This first stage uses DLT to maintain the unitholder register in new and existing funds and fund services. This represents the current position in the UK. In Chapter 2, we are supporting this first phase by giving Handbook guidance on

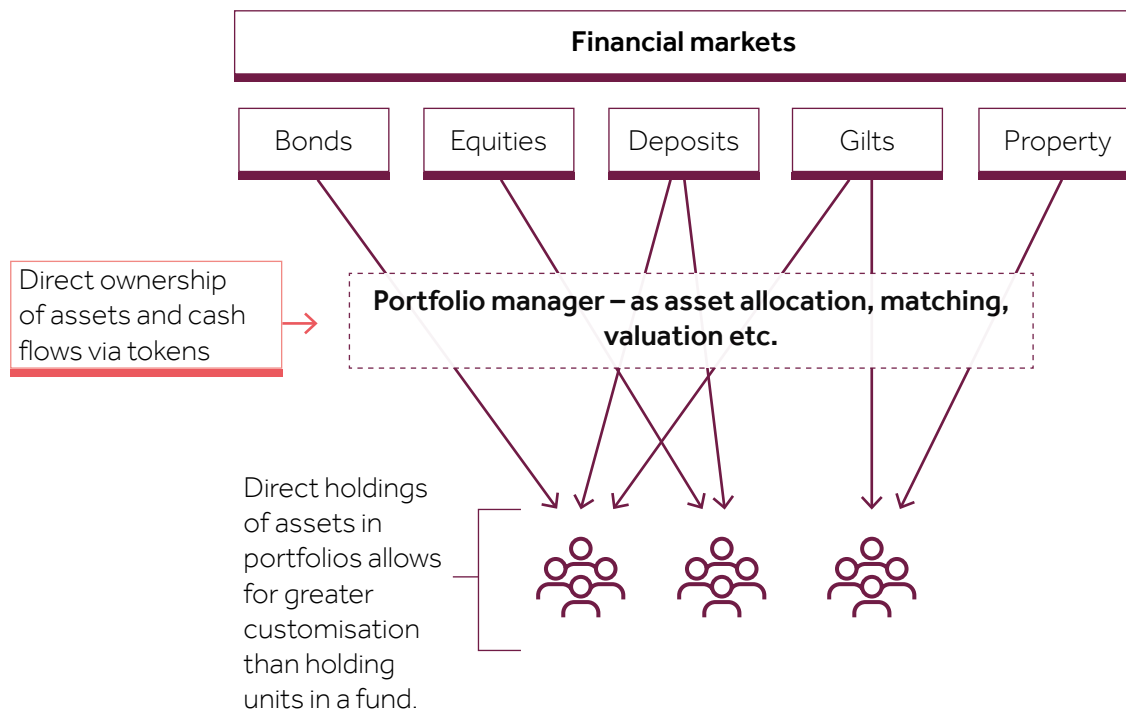
the Blueprint. Fund tokenisation may also include units being dealt and settled via DLT using on-chain cash. We are enabling this in Chapter 3 and Chapter 4. Firms expect that integrating DLT into fund management will reduce operational costs associated with servicing the fund, such as register maintenance and reconciliations. Calastone estimate this could achieve 23% savings in operating costs.

**Figure 1: Stage One: Tokenised Funds – investor/asset relationship**



**5.8 Tokenisation of assets:** This second phase involves moving to a different relationship between asset managers and clients which is similar to the way managed portfolios or discretionary investment management services are delivered today, usually for wealth clients. Programmable tokens and self-executing smart contracts allow consumers to directly hold tokenised assets in a digital wallet. Model portfolio smart contracts may also be maintained, where asset managers manage client holdings through 'micro-model portfolios' to meet the financial needs and objectives of similar groups of consumers. Direct holdings of tokens may reduce the complexity and costs associated with operating a fund. It may also improve the customisability of investments if investors hold tokens which meet their specific financial needs and goals, rather than being in a general share class within a pooled vehicle.

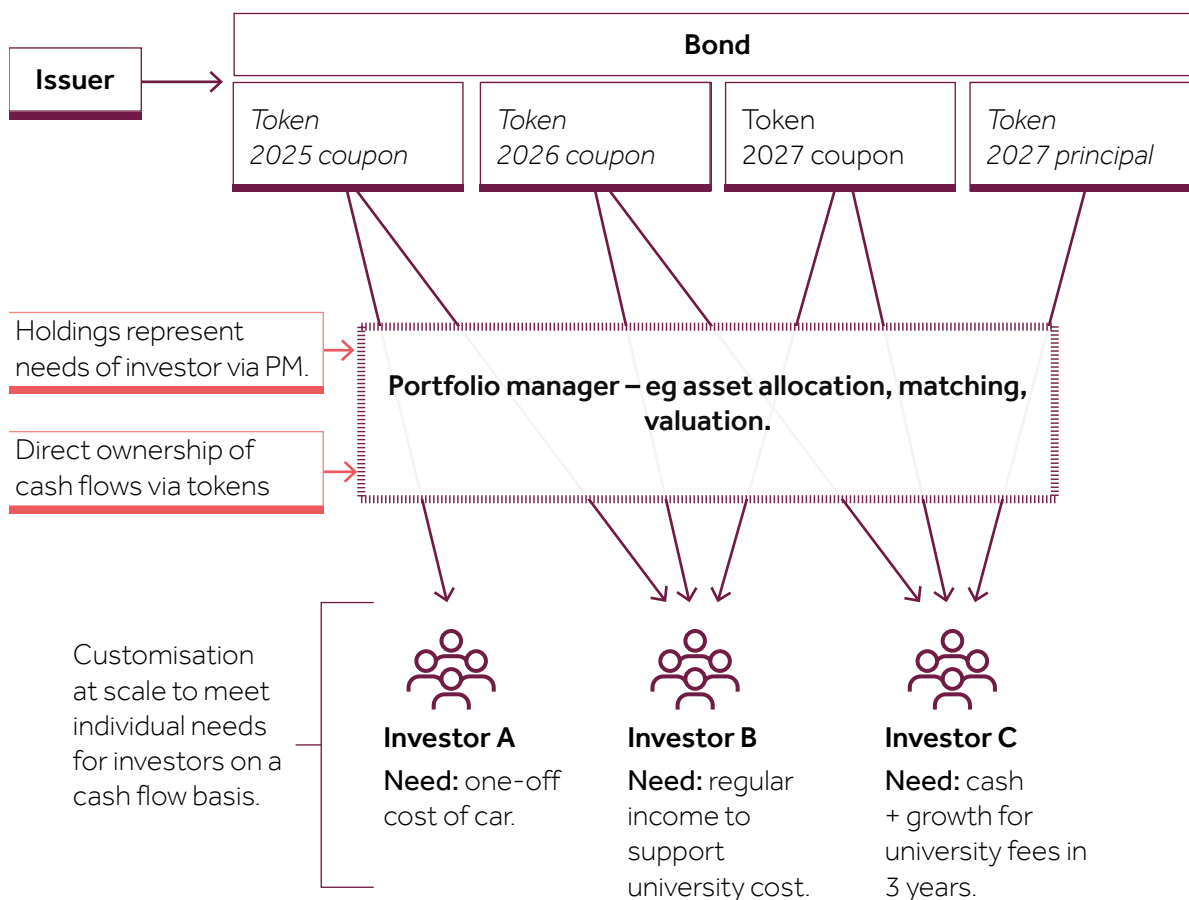
**Figure 2: Stage 2: Tokenised Assets – investor/asset relationship**



**5.9 The tokenisation of cash flows:** This target 'end-state' involves direct holdings of tokenised assets being broken down into cash flows that constitute the assets. These cash flows are represented in tokenised form. In this third phase, an adviser creates an actuarial-style lifestyle plan of current and future financial needs for an investor and assigns specific cash flow tokens to meet those needs, providing ongoing portfolio management of cash flows. The tokenisation of cash flows makes investing highly customisable to meet a wide range of bespoke client needs.



**Figure 3: Stage Three: Tokenised cash flows – investor/asset relationship – tokenised corporate bond example**



**Question 24: Do you agree with the three phases described? Are these developments industry is looking to pursue?**

- 5.10** Some firms are exploring 'composability' throughout this 3 stage process, including in the [Guardian Funds Framework \(GFF\)](#). Composability looks to maximise the 're-use' of existing technological and operational components to build new DLT applications and services. Composability may have the potential to simplify technological and asset management processes and deliver operational and investment benefits across the sector.
- 5.11** Composability can be thought of at 2 levels: tokens and processes. At the token level, tokens can be used to make assets composable, by breaking down assets into the cash flows that make up assets. At the process level, smart contracts may be layered on top of tokens to reduce the number of technological operating processes across different product types, asset classes and clients.
- 5.12** Composability relies heavily on the standardisation of tokens, smart contracts and networks, as well as operational and regulatory processes. There are a wide range of efforts to create common token standards. For example, the [International Capital Markets Association \(ICMA\)](#) have created the 'DLT Bond Data Taxonomy' to provide a

foundational set of common definitions and data fields for tokenised bond issuances. The GFF also set initial composable standards for fund tokens. We recognise that standards are constantly evolving and want to support industry to develop good standards and market practices.

- 5.13** This composable 'end-state' may have the potential to change the characteristics of assets, such as illiquid assets. Tokenised cash flows may allow retail investors to hold flows representing entitlements to, for example, a rental yield from a real estate investment. In this example, the ownership of tokenised flows of illiquid assets may reduce the structural liquidity mismatches found in open-ended collective vehicles primarily investing in illiquid assets. It may also create a more active secondary market for real-estate assets where ownership of cash flows are traded. Greater access to private assets, including productive assets, can potentially deliver higher returns for investors, improve investor outcomes through greater asset diversification and support the growth of real investment in the UK economy.
- 5.14** Some industry participants have argued that this could make illiquid assets more appropriate for retail investors. However, as with conventional products, such as securitisations or real estate investment trusts (REITs), there is no guarantee that there will be an active secondary market in a particular product even if the technical functionality exists.
- 5.15** Investment processes may also need to be standardised to scale individual portfolio management to a retail market. Most future visions use model portfolios to solve this with a set of on-chain model portfolio smart contracts. DLT may allow the creation of 'micro-model portfolios' to be managed by the firm at scale. Potentially on a more targeted basis than a collective scheme, taking account of individual time horizons and risk tolerance.
- 5.16** We see a degree of convergence between the adoption of tokenisation, the use of model portfolios and targeted support as part of the Advice Guidance Boundary Review (AGBR). Firms wanting to make suggestions to groups of consumers with common characteristics, may use model portfolio smart contracts held in investor wallets to efficiently deliver investment solutions and manage a potentially large number of retail consumer accounts. Firms may progress all three initiatives together with the potential to achieve better outcomes for consumers.

**Question 25:** What processes within the fund and investment management lifecycle do firms want to begin to make 'composable'?

**Question 26:** How does 'composability' impact the liquidity profile of assets we currently think of as less liquid or illiquid?

**Question 27:** How might the tokenised portfolio management vision enhance consumer outcomes?

## Changing role of asset managers

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- 5.17** In the second stage, discretionary investment management could be delivered at lower cost and at scale by using DLT. The need for a fund structure may fall away as model portfolios of assets could present consumers with more cost-effective and consumer-specific investment propositions, without the intermediation cost of operating and servicing a pooled vehicle.
- 5.18** In stage 3, consumers rely on specific flows for financial needs at critical and specific times. There may be client demand for guaranteed future flows where the cash flow is important to the client's financial needs. So, asset managers may look to give some sort of guarantee of the future flows by taking on principal risk, or the asset manager (or digital custodian) may have to perform a token validation role to make sure the token exists and will be executed as planned. Asset managers may need to compensate for 'lost' or 'malfunctioning' tokens.
- 5.19** Where investors primarily interact with asset managers via a DLT network, 2 fundamental changes could take place:
- Firstly, this may lead to a marketplace of flows. Consumers will be able to set out their financial needs and digitally represent them. This could lead to asset managers bidding for that account, based on who can best meet the needs through asset and flow selection. There may be benefits to consumers, such as greater choice between different investment propositions; greater competition may also drive better consumer outcomes. However, there is also potential for firms to take greater risk to 'win' an account, such as placing consumers in inappropriate assets or flows.
  - A new marketplace of tokenised flows may change the way capital issuers raise capital. In this model, large issuances may be fragmented into a range of tokenised flows held by many different consumers. This may have benefits for capital issuers, such as allowing for more precise and targeted issuances to meet their financing needs. It may also bring new risks to issuers, where intermediaries can no longer effectively manage risks arising from investor behaviour. Funding may become less predictable where issuer debt is owned by many retail investors with constantly changing needs.
- 5.20** Existing roles in financial markets evolve or be re-purposed through the 3 stages. For example, fund accounting activities may evolve into portfolio accounting for the manager across its entire client base. Market infrastructure roles may also change. For example, custodians may move from maintaining global central securities depositaries (CSD) linkages, to providing access across different private and public blockchain networks (interoperability). Some roles may disappear altogether.

**Question 28: Do you foresee any other major changes to the role of asset managers or other market participants in a tokenised flows 'end-state'? What are the opportunities and risks?**

## Changing regulations

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- 5.21** We do not endorse any particular future vision. However, we want to explore how regulation may evolve to cater for these models, and how this might help us progress our objectives and strategic priorities for firms, markets and consumers.
- 5.22** We believe our rules largely support experimenting with these proposed models. We already regulate individual portfolio management services. Where our rules for funds would no longer apply in stages 2 or 3, similar or equivalent expectations apply to firms under our COBS rules and the Consumer Duty.
- 5.23** However, many of the expectations in COBS for individual portfolio management are not as prescriptive as, for example, the COLL rules. This is because portfolio management has historically been for wealth clients. As a result, our portfolio management rules rely largely on suitability assessments, rather than the specific requirements in retail authorised funds, such as investment powers and eligible assets, diversification and spread of risk and standardised disclosures. These may be areas where we need to build on existing regulation to ensure effective supervision and give firms the certainty to scale tokenised portfolio management offerings.
- 5.24** We have some areas of concern where we think the portfolio management rules may be inadequate for the scale of retail funds. For example, the lack of rules on investment powers may lead to portfolios which do not meet diversification or liquidity needs of their investors. We intend to conduct a review of the portfolio management rules to ensure they are fit for future for firms and consumers, and that we have a proportionate regime to support tokenised portfolio management.
- 5.25** Composable finance could also introduce embedded compliance where regulatory requirements are programmed into tokens. This may lead to greater consumer protection where only particular types of investors can invest in certain assets, such as illiquid assets. Composable regulation may also improve market integrity outcomes, such as where embedded financial crime controls mean that tokens can only be transferred to addresses that have been undergone KYC/AML checks and are on an 'allow list'.
- 5.26** One enabler of composability is on-chain digital identity. Asset managers require certainty about the identity, profile and needs of the underlying consumers at scale. This could be done cryptographically. Managers can verify the identity of the wallet address through decentralised identifiers, such as non-fungible tokens (NFTs) acting as proof of identity, or 'soulbound' tokens. Soulbound tokens are non-transferable tokens which sit in an individual's digital wallet and are a unique token that attest to the identity of the wallet owner. Digital ID is also important for AML/CFT and KYC purposes.

**5.27** The third phase looks very different to how consumers invest today. The following table briefly sets out the key areas of our authorised funds rules and how they might need to change in the third phase of tokenised cash flows:

Key theme: authorised funds	Relevance: future vision
Fund type & investor eligibility	Existing standards to ensure higher-risk strategies can only be sold to appropriate professional or institutional clients may need to evolve.
Eligible assets/markets	Existing controls may be re-purposed to ensure consumers are invested in suitable and appropriate flows according to their needs, such as if a vulnerable consumer's financial needs change rapidly, or market events affect an issuer or jurisdiction.
Investment and borrowing limits	Controls may be needed to restrict permitted investments and set out relevant limits, based on strategy and consumer type. Future controls could be set for the strategy through smart contracts.
Oversight/depositary function	An independent investor oversight or audit function could be considered. The transparency of public networks may alter the nature of this function.
Investor disclosures	Newly created cash flows may require a form of standardised disclosure. This could be targeted at consumers or the adviser.
Benchmarks and performance	Consumers will need new metrics to compare performance of other tokenised portfolios and make a judgment on their current service. There is potential for bespoke, tailored investor reporting.
Pricing and dealing	Existing controls, including best execution, may be revised to ensure appropriate pricing if flows are sold as a 'package'.
Safeguarding assets	Digital custodians will safeguard assets and maintain appropriate books and records. The transparency of public networks may change how this function is performed.
Auditing and valuation	Audit standards may need to be amended to address flows. Standards may need to be introduced to govern valuation of portfolios and its frequency.
Investor rights	Standards needed around investor rights, especially right to redeem across different asset/flow classes, and right to vote/attend meetings where assets broken down.
Liquidity management	Standards will need to revise how asset managers ensure they can manage inflows and outflows of tokens as client and market circumstances change, including ongoing presence of market makers in flow marketplace.
Conflicts of interest	Potential for new conflicts if the asset manager is both token selector and token issuer.
Governance & INEDs	Independent directors may need different skillsets / focus areas such as technology expertise.

Key theme: authorised funds	Relevance: future vision
Complaints & compensation	Role of FSCS and the Financial Ombudsman may need to evolve to include how compensation costs are funded when new asset classes and firm functions are used in the retail market to ensure the 'polluter pays'.
Suspension & wind-down	General management of insolvency of issuers and liquidation to be considered where underlying cash flows of assets are held disparately.
Side pockets	Standards to be re-purposed to manage suspended/sanctioned flows committed to a consumer.
Overseas funds/ recognition	International standards may need to be developed to allow for overseas tokens to be recognised and UK tokens to be distributed in other markets.

**5.28** We are interested to hear from firms which areas of regulation may need to change in this future vision. We see this as a potential opportunity for us to take a more proportionate, less prescriptive approach, while maintaining high standards of consumer protection and market integrity.

**5.29** There may be some risks which are reduced in the model, such as the liquidity mismatch in open-ended collective vehicles. Many existing risks of DLT may remain, such as dependence on a concentrated number of DLT platforms or digital custodians. New risks may also emerge.

**Question 29:** How might market integrity and financial stability risks evolve in the future tokenised portfolio management model?

**Question 30:** What areas of the current funds framework will need to be recreated in the future vision? What areas could be simplified across different parts of the Handbook?

**Question 31:** What areas of the Handbook, or wider rules and legislation, do we need to reconsider to support the growth of the proposed tokenisation models?

**Question 32:** What should the FCA's role look like in this future vision?

## Annex 1

# Potential amendments in respect of cryptoassets

1. In Chapter 4, as part of our discussion section on a roadmap for tokenisation, we invited feedback on how COLL might be amended to allow authorised funds to hold digital cash instruments and money-like instruments for limited purposes, other than the pursuit of a scheme's investment objectives. In this Annex, we set out some suggested amendments on how our rules could be potentially modified for those funds which need this additional flexibility.
2. This could be progressed via a rule modification where the relevant statutory conditions are satisfied, or through an amendment to our rules in a future formal consultation. We welcome feedback on this text through questions 18 and 19 of this consultation paper.

### Potential amendments in respect of authorised funds holding cryptoassets for limited purposes

5.2.6A	R		Subject to <b>COLL 5.2.6BR</b> , the <b>scheme property</b> of a <b>UCITS scheme</b> must, except where otherwise provided in the <b>rules</b> in this chapter, consist solely of any or all of:
		...	
5.2.6B	R	(1)	The <b>scheme property</b> of a <b>UCITS scheme</b> that is a <b>tokenised fund</b> may also include an <b>ancillary digital asset</b> if it complies with the provisions of this <b>rule</b> and the <b>rules</b> in this section.
		(2)	A <b>tokenised fund</b> may only hold an <b>ancillary digital asset</b> in its <b>scheme property</b> to the extent that it fulfils the following criteria:
		(a)	The potential loss which the <b>scheme</b> may incur with respect to holding the <b>ancillary digital asset</b> is limited to the amount paid for it;
		(b)	The holding of the <b>ancillary digital asset</b> does not compromise the ability of the <b>authorised fund manager</b> to comply with its obligation to <b>redeem</b> or <b>cancel units</b> at the request of any qualifying <b>unitholder</b> (see <b>COLL 6.2.16 R(3)</b> ); and
		(c)	The <b>ancillary digital asset</b> is entrusted to the <b>depository</b> for safekeeping in accordance with <b>COLL 6.6B.18R</b> or <b>COLL 6.6B.19R</b> .
		(3)	An <b>ancillary digital assets</b> may only be held in the <b>scheme property</b> to the extent that it is reasonably necessary to do so for:
		(a)	the <b>issue, cancellation, sale</b> and <b>redemption</b> of <b>units</b> ;
		(b)	the distribution of the income of a <b>scheme</b> ;
		(c)	the making of payments out of <b>scheme property</b> where permitted under <b>COLL 6.7.4(R)</b> ; and
		(d)	other purposes which are ancillary to the investment objectives of the <b>tokenised fund</b> .

Potential amendments in respect of authorised funds holding cryptoassets for limited purposes

		(4)	In this <b>rule</b> :	
			(a)	an 'ancillary digital asset' means a <b>qualifying cryptoasset</b> that:
			(i)	seeks or purports to maintain a stable value in relation to a referenced currency, through the cryptoasset issuer holding, or arranging for the holding of currency, or currency and other assets; and
			(ii)	is native to a particular distributed ledger technology and its use is necessary to initiate transactions on the relevant network; and
			(b)	a 'tokenised fund' means an authorised fund that <b>issues units</b> in the form of a 'cryptoasset' (as defined in section 417 (Definitions) of the <b>Act</b> ).



## Annex 2

### Questions in this paper

- Question 1:** Does the proposed guidance provide adequate clarity on how firms can use DLT to support the operation of fund registers?
- Question 2:** Are there any challenges in meeting the current requirements where DLT platforms are used, or in respect of emerging use-cases?
- Question 3:** Do our existing rules and proposed guidance provide sufficient flexibility to allow for firms operating the register to use smart contracts for the purposes above?
- Question 4:** What role can regulators play in supporting the development of token standards that promote effective governance and positive consumer outcomes?
- Question 5:** Do our COLL rules and proposed guidance provide sufficient flexibility to support fund tokenisation use-cases that use public networks?
- Question 6:** Do the proposals in this Chapter provide adequate flexibility for firms considering tokenisation and the migration to T+1 securities settlement?
- Question 7:** Do you support the introduction of an optional regime to allow for direct dealing in authorised funds?
- Question 8:** Do our proposed requirements for operation of the IAC provide a proportionate control environment while ensuring funds are operated, and overseen, in line with principles of segregated liability?
- Question 9:** Do you agree with our proposals in respect of overdrafts and limits on fund exposure to a given bank or group? If not, why?
- Question 10:** Do you agree we should include all cash held at a given bank within our spread of risk rules for UCITS and NURS? If not, why?

- Question 11:** Do you agree with our proposed accounting controls in respect of use of IAC? If not, why?
- Question 12:** Do you agree with our proposal to provide additional clarity on cash held by LTAF and the requirement to appoint an external valuer? If not, why?
- Question 13:** Do you agree with our proposals in respect of investor disclosures and communications? If not, why?
- Question 14:** Do you agree that fund AFMs should bear the cost of exercising discretion for late payments? If not, why?
- Question 15:** Are there scenarios where this may not be appropriate or such costs should be allocated differently?
- Question 16:** Do you support introducing broader powers to deal with historic orphan monies? What legal or regulatory barriers might prevent introducing such a process?
- Question 17:** Are there any other purposes for which funds, fund managers, or investors may need to hold cryptoassets to support fund operations on-chain?
- Question 18:** Would our potential amendments to COLL provide sufficient flexibility for firms to use digital cash and money like instruments for operational purposes, including unit dealing?
- Question 19:** Would a limited sandbox or standard waivers/modifications be appropriate routes to allow us to develop a final regime in collaboration with industry? What features may be desirable in such a regime?
- Question 20:** Do any other areas of our rules conflict with or prevent use of digital cash instruments or money-like instruments for unit dealing, distribution payments, or for payment of charges and fees?
- Question 21:** Would our existing rules, including the Consumer Duty, provide enough protection for investors if we allow a fund to hold cryptoassets for settlement and fund operational purposes only?

- Question 22:** Are there other associated regulatory, operational or commercial barriers to investing in tokenised assets? What could we do to address these issues?
- Question 23:** How are changing investor habits and expectations influencing the design of tokenised products?
- Question 24:** Do you agree with the three phases described? Are these developments industry is looking to pursue?
- Question 25:** What processes within the fund and investment management lifecycle do firms want to begin to make 'composable'?
- Question 26:** How does 'composability' impact the liquidity profile of assets we currently think of as less liquid or illiquid?
- Question 27:** How might the tokenised portfolio management vision enhance consumer outcomes?
- Question 28:** Do you foresee any other major changes to the role of asset managers or other market participants in a tokenised flows 'end-state'? What are the opportunities and risks?
- Question 29:** How might market integrity and financial stability risks evolve in the future tokenised portfolio management model?
- Question 30:** What areas of the current funds framework will need to be recreated in the future vision? What areas could be simplified across different parts of the Handbook?
- Question 31:** What areas of the Handbook, or wider rules and legislation, do we need to reconsider to support the growth of the proposed tokenisation models?
- Question 32:** What should the FCA's role look like in this future vision?

## Annex 3

# Cost-Benefit Analysis

## Summary

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1. The UK is the second-largest investment management centre globally after the US, overseeing £1.43tr in authorised funds. Authorised funds (i.e. funds regulated by the FCA, including retail products) are a key mechanism for delivering investment services via low-cost pooled vehicles.
2. Currently, investors transact through Authorised Fund Managers (AFMs), who act as principal in unit deals with investors. This structure exposes the fund and investors to the AFM and requires that the money the manager receives must be segregated and treated as client money. This extra layer can reduce efficiency in the dealing in funds, reduce competitiveness and increase prices for customers.
3. This cost-benefit analysis (CBA) evaluates the impact of introducing an optional new dealing model for authorised funds, called Direct to Fund (D2F). Under D2F, cash flows directly between the fund and investors, removing interim exposure, associated risks, and the need for client money safeguards. It also eliminates transactions between the fund and the authorised fund manager, simplifying fund dealing operations. The simpler model may also assist firms wishing to launch tokenised funds.
4. By reducing intermediaries, investment firms will free up resources that could then be used more productively. It might also attract fund managers from other countries to launch products in the UK because they face lower risks. These risks result from fund managers acting as principals and having to commit capital in order to act as such, which has liquidity impacts for the firm and may require the manager to borrow money. For example, if an end investor fails to pay the manager on time, the manager may need to still meet the terms of its own contract with the fund. Furthermore, developments in blockchain linked to D2F may have positive spillovers into other sectors and enhance overall economic productivity.
5. Our policy aims to reduce the regulatory burden on authorised funds in the UK. By adopting D2F, these funds will remove interim exposure and the associated risks, while the associated costs are expected to be minimal, primarily limited to familiarisation with the new framework. Importantly, even a relatively small number of firms adopting this channel would be sufficient for the overall benefits to outweigh the costs.
6. Over a 10-year appraisal period, we estimate a net present value benefit between £27m and £57m coming from a reduction in the fees charged by fund managers to investors. Based on our understanding of the market, we assume a 2.5% reduction in costs associated with operating the fund register, with a market uptake starting at 1% and rising to 33% at the end of the appraisal period. Estimated costs are £100K, stemming solely from one-off familiarisation with new regulatory material.

**Table 1: Summary of costs and benefits (10 years, present values, upper and lower bounds)**

Group Affected	Item Description	PV Benefits	PV Costs
Firms	Familiarisation Costs		£100K
Investors	Reduction in fees	£27m-57m	
<b>Total Impacts</b>		£27m-57m	£100K
<b>Net Impact</b>		+£27m-57m NPV	

7. By introducing the possibility of trading funds using D2F channel, we are creating a framework for increased innovation, efficiency and competitiveness in UK financial markets, supporting our Secondary International Competitiveness and Growth objective.
8. Overall, we anticipate that allowing investors to trade directly with funds delivers significant net benefits and is proportionate. The proposed rules and guidance will introduce higher efficiency and lower risks for investors who choose to purchase funds whilst Fund managers will benefit from reduced risk D2F. We also estimate benefits as being more substantial than familiarisation costs to funds for those funds that choose to adopt D2F.

## Introduction

9. The Financial Services and Markets Act (FSMA), as amended by the Financial Services Act 2012, requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
10. This CBA quantifies the costs and benefits of introducing an optional new model for dealing in units of authorised funds, called Direct to Fund (D2F). D2F can be used by all authorised funds. It will offer a more efficient, streamlined process. This simplification may encourage take up of fund tokenisation. Our CBA is based on an assessment of how the proposed model alters operational processes within Authorised Fund Managers (AFMs), and how these changes might alter consumer outcomes.
11. This CBA has the following structure:
  - The market
  - Problem and rationale for intervention
  - Our proposed intervention
  - Options assessment
  - Baseline and key assumptions
  - Benefits

- Costs
- Competition assessment and wider economic impacts
- Monitoring and evaluation

## The Market

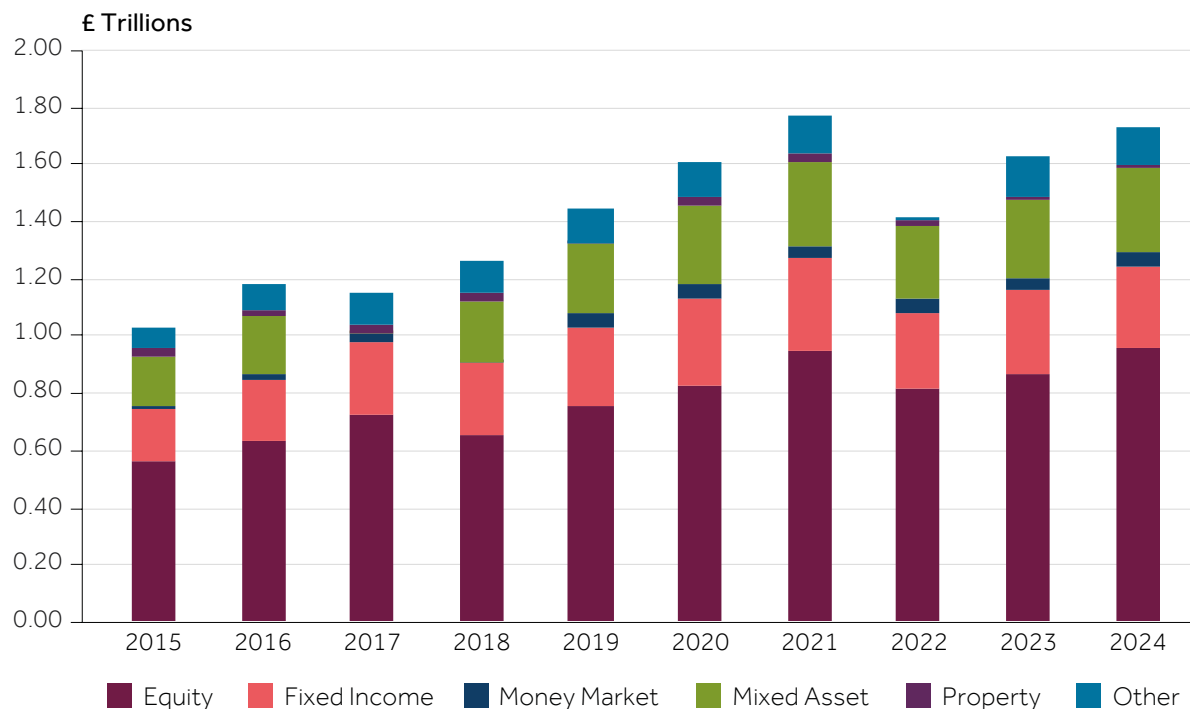
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- 12.** This section describes the existing fund marketplace (both globally and within the UK), including trends we have observed in recent years.

### Funds in Existing Financial Markets

- 13.** A fund is an investment vehicle that pools together money from many different investors. It is operated by a fund manager whose duties include choosing underlying investments on behalf of investors. Funds can invest in various types of assets, such as shares, bonds or property, depending on the fund's investment objective.
- 14.** Retail and institutional investors use funds to generate a return on their investments. Retail consumers may use funds to save for retirement, support a large purchase or earn higher returns than holding their assets in a savings account. Institutional investors typically use funds to get better returns on money that otherwise would be stored as cash or to meet future expected or potential liabilities and cash flow requirements.
- 15.** According to the Investment Association (IA), the net asset value of UK authorised funds (funds regulated by the FCA, including retail products) in 2023 was £1.46 trillion. The UK is the second largest investment management centre in the world, only after the US and manages 37% of all assets managed in Europe. Authorised funds, as a low-cost pooled vehicle, play a key role in the distributing investment management services. Pooled investment vehicles allow investors, such as retail consumers, for whom it may not be cost efficient to appoint an individual portfolio manager, to benefit from professional investment management services.
- 16.** The chart below shows the total value of authorised funds by type of asset, including holdings in fund of funds. The overall value of authorised funds fluctuates based on both investor flows and broader macroeconomic conditions. The value of assets has increased from approximately £0.9 trillion in 2015 to almost £1.5trn in 2024, stabilising after global market falls in 2022 linked to expectations regarding higher interest rates and the impact it would have on consumers, businesses, stock and bond prices.

## Value of UK authorised funds (by asset)



Value of UK authorised funds by asset. The figure includes double counting of investments through funds of funds (FOFs). Assets are counted first as investment in a FOF and then as FOF investment in other funds. This gives the best asset breakdown of investors' choices since the Investment Association cannot identify FOFs holdings of funds by asset.

## Direct to Fund (D2F) model and tokenisation

17. In the UK, under current market practice, investors who buy or sell units in an authorised fund do so through the AFM, which acts as principal. That is, the AFM is the counterparty to any transaction. The fund manager maintains a float (known as a box) of units to facilitate this and initiates a separate transaction with the fund or depositary to manage the amount of units it holds in the box. Under this model the fund and its investors have exposure to the manager when dealing. So money received by the manager must be segregated and treated as client money, subject to the exemptions in CASS 7.11.21 (R).
18. Authorised fund managers commonly outsource unit dealing processes and operation of the register of investors in the fund to an administrator, commonly known as a registrar in the UK or transfer agent internationally. Fees for this service may be based on a fixed annual amount per unit holder. However, increasingly, pricing reflects the level of intermediation in fund distribution and may instead be calculated as a percentage of the fund's Net Asset Value (NAV). Many firms also operate an 'all-in-fee' model whereby charges are included within broader fund administration and investment management charges. Where fees are disclosed discretely, our assessment of the market suggests that prices are typically within the range of £10 per unit holder per annum (+VAT), or between 0.07% and 0.15% of fund NAV (Net Asset Value). We have obtained this data from a sample of scheme prospectuses available online. Using this as proxy for the costs of unit dealing we estimate that costs associated with the operation of fund registers were between £1bn and £2.2bn last year.

19. In the D2F model, cash moves directly between the fund and unitholders. This removes the interim exposure, the associated risks, and the resulting requirement for the manager to apply our client money rules. Instead, cash received by the fund forms part of scheme property and is held in accordance with the standard rules set out in the COLL. These rules cover eligible banks, reconciliations and depositary oversight.
20. D2F may further act as an enabler of fund tokenisation. Tokenisation is a way of representing an asset, or ownership of an asset, by recording it on distributed ledger technology (DLT). DLT is a digital system that records details of transactions in multiple locations at the same time, rather than on a centralised database.
21. The elimination of back-to-back transactions represents a significant efficiency gain in fund operations. This benefit applies equally in a tokenised fund environment, where minting and burning tokens to facilitate primary unit transactions can occur without first transferring units from the fund manager alongside corresponding payments.
22. Tokenisation was the second most cited initiative in feedback to our discussion paper 'Updating and Improving the UK regime for Asset Management' (DP23/2). Fund managers are interested in integrating DLT because it has the potential to automate administrative processes or provide new avenues for distribution. By reducing intermediaries, tokenisation offers the opportunity for investment firms will be able to free up resources and spend them on productive projects.
23. Fund tokenisation is expected to develop rapidly in terms of assets under management. PwC reported that AuM (Assets under Management) are projected to increase from \$40bn in 2023 to more than \$317bn by 2028. This would still represent a very small fraction (0.12%) of total assets traded in conventional financial markets worldwide today, \$271tr (data is coming MSCI). The majority of tokenisation projects are limited to experimental pilots with few products operated today at commercial scale.

## Problem and rationale for intervention

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24. Ineffective or outdated regulation can be harmful and lead to poorer outcomes for firms and investors by preventing them from utilising efficiencies in new technologies. In this case, existing FCA regulation restricts firms' ability to adopt more efficient methods of dealing, as all funds are required to deal with an authorised fund manager. Allowing broader use of direct dealing, provides an optional alternative process for dealing in units of authorised funds. Its introduction provides firms with flexibility to use a model more consistent with international practice. This results in harm to market integrity and UK international competitiveness through:
  - **Higher prices.** The costs of unit dealing and the operation of a fund's register are, ultimately, borne by customers. If regulation forces funds to keep an additional operational step, it could increase costs and so prices borne by customers.
  - **Reduced efficiency and competitiveness.** The existing model is largely unique to the UK. According to the Investment Association (IA), its increased administrative burden, heightened regulatory risk due to the application of CASS rules, and higher capital requirements for AFM to provide unexpected fund liquidity place the UK



industry at a competitive disadvantage. These additional operational layers also introduce inefficiencies into the process.

D2F may allow some fund managers to apply global or EU operating models, increasing efficiencies from tokenisation, creating future business models and improving international operability.

- **Risk for investors.** Ineffective regulation poses a potential risk to investors as reported on the [IA paper on D2F](#). At present, investors typically deal with the AFM as principal. If the AFM defaults, payments between fund managers and investors may be at risk, where cash is held other than as client money through exemptions in existing CASS rules. Investors with funds in the client money account may face losses if the bank or banks holding client money default. In the D2F structure, investors and the fund are exposed to each other in deals, and the fund is exposed to the bank holding cash. Our proposal includes controls to manage and mitigate these risks.

25. The primary driver of the above harms is a **regulatory failure**, in which our current rules do not allow firms to take advantage of innovation in fund management technologies. This results in a reliance on intermediaries which could be avoided, creating higher costs and reduced efficiencies.
26. Our regulatory environment inhibits innovation because it does not allow the adoption of tokenisation into funds. It undermines UK competitiveness to compete with other economies who are starting to adopt this technology, with the risk of harmful side effects for the broader UK economy. Lower market efficiency could capture resources that could be freed and reinvested into productive alternatives. D2F offers flexibility for firms to choose the most appropriate dealing model for a given fund. It may also assist in take up of tokenisation. Regulatory barriers to each of these could weaken the international competitiveness of the UK relative to peers, as well as influence market liquidity and efficiency.

## Our Proposed Intervention

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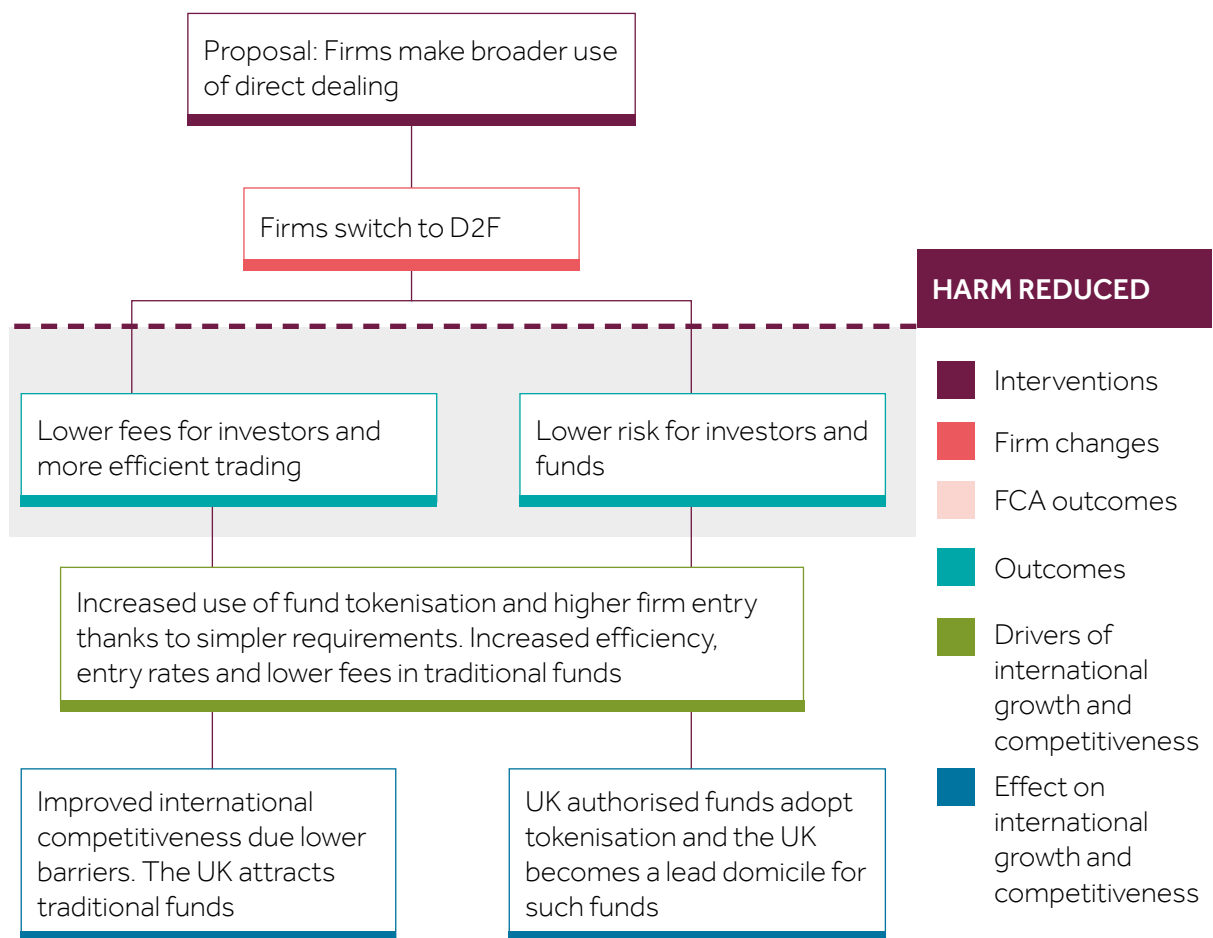
27. We are designing a regime based on our operational and strategic objectives, with a view to mitigate the risks relying on AFM may present. These are:
- a. Protecting Consumers
  - b. Supporting Market Integrity
  - c. Promoting Competition
28. By providing regulatory clarity to firms, we are aiming to support market integrity and promote fair and effective competition. Our intervention also furthers our Secondary International Competitiveness and Growth Objective, through creating a more efficient fund market.
29. This intervention aims to **enhance market quality**, which we anticipate will ultimately result in improved consumer outcomes. Direct dealing will not generally be investor

visible, but by providing firms more flexibility to reduce overheads and operational processes, transactions could be finalised quicker and reduce the amount of fees paid by investors. Where payments are channelled through the AFM today, the AFM is exposed to counterparty risk if 3rd parties do not complete settlement by the designated settlement date. In the D2F model, we will still require AFMs to meet interest charges and costs incurred by the fund if unpaid deals are not cancelled. However, direct principal risk is removed which will ease capital requirements for AFMs.

30. In addition, our intervention seeks to improve competition in UK asset management markets, through enabling the use of fund tokenisation market, which could result in more innovative and efficient products. By lowering the costs to set up a fund, we anticipate our intervention will lower barriers to entry.
31. At the same time, higher levels of efficiency permitted through the D2F model, could also boost the UK's **international competitiveness** by reducing fees and freeing up firm resources that could be invested elsewhere. Such measures could collectively assist in the economic **growth** of the UK in the medium to long term. This policy aligns the UK with international standards and supporting our Secondary Objective.

## Causal Chain

32. Through introducing a new way for authorised funds to bypass the AFM through D2F, we anticipate an increase in adoption of fund tokenisation. This in turn will allow for funds to reduce costs and create further incentives to innovate using DLT (Decentralised Ledger Technology). We expect this to create more efficient fund management within the UK, supporting UK international competitiveness. Traditional funds will likely also adopt this system and reduce costs, free-up resources, and increase efficiency.
33. Our causal chain demonstrates how we expect our regulatory intervention results in changes in the market which have knock-on effects which ultimately result in reduce harm for consumers. Nodes within the chain have been informed by relevant academic literature and our understanding of the market that we have established through our firm engagement.
34. Our key assumptions are:
- Firms change their behaviour as a result of our intervention, including adjusting business models in line with our proposed requirements
  - Introducing regulation provides greater clarity and regulatory certainty to firms, which results in increased market entry.
  - Direct dealing funds result in lower costs for fund management, without creating additional risks or burdens for firms.



## Options Assessment

35. Before producing the rule detailed on the next section, we considered if there were any alternative options which could enable us to achieve our same intended outcomes. The primary alternative option we examined was:
- Issuance of waivers on COLL sourcebook:** COLL (Collective Investment Schemes) provides a regime of product regulation for authorised funds. This sets appropriate standards of protection for investors by specifying a number of features of those products and how they are to be operated. By issuing individualised waivers, we could allow funds to adopt D2F at FCA discretion.
36. The benefits from this option are that it would not require us to change our existing regulation to implement, which could reduce familiarisation costs to firms from engaging and responding to our CP, in addition to speeding up the possibility for D2F and tokenisation adoption. However, as COLL only considers direct dealing as an exceptional event, we agreed with the industry request to develop a specific regime for direct dealing. In amending our rules, we are confirming fund managers will have flexibility to use the model most appropriate for a given fund and its investors. This is preferable than the alternative option because it speeds the adoption of D2F and they are not subject to an application process.

## Baseline and Key Assumptions

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- 37.** We assess the impacts of our proposed new rules against a baseline, or 'counterfactual' scenario, which describes what we expect will happen in the absence of our proposed policy change. We compare a 'future' under the new policy, with an alternative 'future' without the new policy. We construct the baseline based on evidence of the current situation in the sector and extending this into the future.
- 38.** The baseline for our CBA in this CP is a scenario in which we do not intervene with our proposals. If we choose not to intervene, firms would not benefit from the additional flexibility, i.e. the possibility of using D2F instead of existing processes. We want to intervene so that firms can implement D2F at the earliest opportunity thereby promoting competition and innovation in the interest of customers and UK competitiveness.
- 39.** Our baseline framework assumes that without our proposed intervention tokenisation adoption across the UK remains limited, but is more widely adopted elsewhere. Under this scenario, the UK may lose competitiveness in fund and asset management relative to its current position as a global leader. This is the case because other countries are creating the regulation to allow for the adoption of tokenisation technology.
- 40.** We do not quantify these wider economic impacts because despite having the tools, we consider that it is not proportionate.
- 41.** The primary costs for firms from the introduction of D2F model are their familiarisation costs from building direct dealing platforms and adjusting their business model accordingly. These one-off infrastructure costs to firms may be significant and its success is not guaranteed.
- 42.** As our proposed regulatory changes permit firms to engage in D2F but do not require them to, these costs will be elective for firms, and we assume firms will only incur these costs if the business model case for direct dealing supports the high-up front investment. That is, discounted longer-term cost savings in operational expenditure as a result of direct dealing will exceed the initial one-off costs to introduce operational platforms. We account for this uncertainty through a conservative assessment in the number of funds adopting direct dealing over the course of the appraisal period, as outlined below.

### Key Assumptions

- 43.** The analysis in this annex is based on a number of key assumptions which we set out below:
- We assume D2F is initially adopted by a small number of UK funds, following our intervention, growing to 33% of the net asset value in UK authorised funds by the end of our 10-year appraisal period. This estimate is based on our engagement with the industry and the responses to our DP23/2. We welcome feedback on this assumption

- We assume the total value of UK authorised funds is £1.5tr and remains constant throughout our appraisal period. This assumption aims to provide a conservative estimate that delivers a lower bound for our benefit estimation.
- We assume the firms affected by the policy are those managing authorised AIFs (Alternative Investment Funds) and/or UK UCITS. A UK UCITS fund (Undertakings for the Collective Investment in Transferable Securities) is a fund that complies with our regulatory environment for funds and can be promoted to retail investors. Authorised AIF includes UK non-UCITS retail schemes (NURS) which offer more flexible investment and borrowing powers than available under the UCITS regime. we estimate 132 firms are in scope based on our Standardised Costs Model (SCM).
- Firm populations can be estimated based on firms currently authorised by us and which may seek to introduce the proposed direct dealing model.
- D2F will remove exposure to the fund manager in authorised fund unit deals, and introduce a more efficient regime, aligned with international practice. We assume this will improve competition, allowing global asset managers to adapt global processes more readily to UK operations and benefit smaller managers who may be unable to secure overdraft facilities.
- Fees charged to funds for register and transfer agents are estimated at 0.07%-0.15% of total AUM for the AFM model.
- We expect that by adopting D2F, all UK authorised funds will reduce ongoing costs associated with operating fund registers and dealing processes by 2.5%.
- We assume that competition in the funds markets means cost savings in asset manager operational expenditure are passed on to clients (both retail consumers and institutional investors)

**44.** And use the following terms:

- Unless stated otherwise, all references to 'average' are the mean average.
- All price estimates are provided in 2025 figures

## Summary of impacts

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- 45.** Over our 10-year appraisal period, we estimate a net benefit (PV-adjusted) ranging between £27m and £57m. We approximate these benefits through a 2.5% reduction in costs associated with operating the fund register. While costs reduction is small, the aggregate size of the UK funds market drives the total net benefit we anticipate accruing to firms.

- 46.** Total costs are £100K coming from one-off familiarisation costs associated with our proposed new rules.

Group Affected	Item Description	PV Benefits	PV Costs
Firms	Familiarisation Costs		£100K
Investors	Reduction in fees	£27m-57m	
<b>Total Impacts</b>		£27m-57m	£100K
<b>Net Impact</b>		+£27m-57m NPV	

## Benefits

- 47.** The D2F model reduces the cost of operating UK authorised funds through removing box management overheads and reduces the capital costs to fund managers associated with acting as principal.
- 48.** We assume 1% of existing funds will start using D2F in the first year, reflecting industry feedback that early adopters will be those with a specific driver to use the new alternative model. This may include firms piloting D2F in products such as institutional LTAF (Long Term Asset Funds) with infrequent dealing and a small investor base.
- 49.** We then assume this percentage increases gradually every year until reaching 33% of fund by the end of our appraisal period. This reflects our expectation of a general trend for firms to migrate to D2F given the simpler operational processes and resultant lower costs, as opportunities arise. This could include the launch of a new fund range, or a new firm entering the UK wanting to use a model consistent with operations elsewhere. According to this assumption, the expected value of funds to be traded using D2F to be £14.5bn.
- 50.** Using registrar and transfer agent fees as a proxy for costs associated with unit dealing, we estimate potential average cost savings of between £3m and £6.6m annually. The bounds are determined by the fact that fees paid by investors range between 0.07% and 0.15% of NAV. These arise due to lower asset management paid to funds using the direct dealing model.
- 51.** Across our appraisal period is 10 years, and we have applied a discount factor of 3.5%, generating total discounted benefits ranging between £27m and £57m.

	Annual benefit (average*)	Discounted total benefits
Market benefits from use of Direct dealing	£3m- £6.6m	£27m- £57m

\*Average benefits per year dividing by the appropriate annuity rate

## Illustrative benefit to hypothetical UK fund

- 52.** The benefits above accrue across market participants and are aggregated across UK funds. To contextualise this within the context of an individual UK fund, we consider the following hypothetical example of a fund operating in the UK with £10bn AUM.
- 53.** Based on our understanding of transfer agent fees, we estimate the fund is spending approximately £7m- £15m annually on costs associated with maintaining the fund register and dealing processes.
- 54.** If the fund were to move to a direct dealing model, a hypothetical 2.5% reduction in such costs could result in cost savings of between £0.2m - £0.4m annually. Over the course of our 10-year appraisal period, and assuming the fund immediately moved to the D2F model, it could be expected to see reduced costs of between £1.8m- £3.8m in total.

## Costs

- 55.** We assume the only costs associated with implementing D2F are familiarisation costs, i.e. the cost to firms and service providers of reading and assessing the updated regulatory material. This is a one-off cost arising on publication.
- 56.** There are no further costs associated with this policy for the purposes of this CBA as implementing D2F is optional. The new model is not a mandatory change that firms operating or providing services to authorised funds must comply with. If an AFM wants to use D2F, or its service providers, will need to provide the appropriate platforms and product offerings, and necessary governance, control environment, and updates to legal documentation. However, firms will only do so having concluded it is the best model for a given fund and its investor base or target market.
- 57.** Total costs are estimated using our standardised cost model (SCM), assuming familiarisation costs from firms reading a standard legal document of 50 pages in length. We assume a total of 132 firms are potentially affected. That is, 13 large, 47 medium and 72 small firms. The scope of the proposals is limited to those firms managing authorised AIFs and a UK UCITS.
- 58.** Total familiarisation costs are estimated at £100K. This figure is small and despite the uncertainty around our benefits, only a small number of firms would need to take up this new channel for the benefits to outweigh the costs.

Regulatory requirement	Transition costs (per firm)	Transition costs (population)	Ongoing Costs (per firm)	Ongoing Costs (population)	Total Population cost
Familiarisation costs	£1,500 (average*)	£100k	£0	£0	£100K
<b>Total Costs</b>	<b>£1,500 (average*)</b>	<b>£100k</b>	<b>£0</b>	<b>£0</b>	<b>£100K</b>

\*Firm average is based on the number of firms impacted, accounting for their size

## Competition and Wider Economic Impacts

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### Competition Impacts

59. In terms of competition, funds adopting D2F may have an first mover advantage with respect to competing products. However, the ability to reduce fees and attract new clients through this will be offset by how far that first movers may have higher costs from developing investor and market understanding of the new model. Early adopters may also incur a greater proportion of the costs of service providers developing new platforms, pending broader demand.
60. Where firms combine implementation of D2F with platform changes for tokenisation and T+1 settlement, there may be some economy in product development. T+1 settlement is a shortened trade cycle in financial markets where a buyer receives a security, and a seller receives payment one business day after the original trade date (T). This transition from the older T+2 cycle aims to increase market efficiency, improve liquidity, reduce risks for market participants, and align with evolving financial market and technology standards.
61. First movers in tokenisation and D2F may gain a cumulative competitive advantage, especially if tokenisation becomes widespread across investors.
62. We consider the risks of market concentration and inefficiencies to be small. Instead, we anticipate the broader package of proposals and discussion material in this paper will promote competition in the sector. Investors should expect an increasingly dynamic market for authorised funds, with healthy competition between asset managers so that consumers share in any realised benefits of tokenisation and D2F.

### Wider Economic Impacts

63. The “Direct to Fund” proposals, which should create some efficiencies for funds reducing reliance on intermediaries and providing regulatory clarity for firms. This intervention reflects **regulatory innovation** and a **rebalanced risk approach**, enabling firms to adopt more efficient processes and explore tokenisation while maintaining appropriate safeguards.
64. By simplifying fund dealing and supporting tokenisation, the proposals are expected to increase **FS productivity** through lower operational costs and streamlined processes. They will also help promote **competition and innovation**, as new entrants can launch tokenised funds more easily, and enhance **international competitiveness** by aligning UK practices with global standards and attracting foreign investment.
65. Broader economic impacts include **improved domestic capital allocation**, as tokenised funds and efficient dealing models free resources for productive investment, and **strengthen the role of consumers as economic agents**, responding to demand for instant, app-based investment products. It also helps support **risk allocation and mitigation**, as operational risks tied to intermediaries are reduced.



66. Collectively, these effects contribute to higher productivity and competitiveness in the UK financial sector, reinforcing the country's position as a global financial centre. They will generate **positive spillovers into innovation and technology adoption**, including distributed ledger applications, and **create new jobs** in fund management and technology. **Improved liquidity and investment flows** will support long-term economic growth and resilience.

## Monitoring and evaluation

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67. To evaluate the success of our policy, we will examine the adoption rate of D2F on UK authorised funds, through our normal authorisation and supervision processes. We believe that a higher use of D2F will translate into lower fees for investors, as firms can select the optimal model for a given fund, and support the adoption of tokenisation.
68. Depending on data availability, we will look to test how D2F and tokenisation affect consumer charges over the longer term. We will also consider how the UK compares relative against other international competitors to see if our attractiveness improves after this policy is released.
69. Given that adopting D2F will be optional for firms, we do not propose any active monitoring strategy.

**Question 33:** Do you agree with our assumptions and findings as set out in this CBA on the relative costs and benefits of the proposals contained in this consultation paper? Please give your reasons.

## Annex 4

# Compatibility statement

## Compliance with legal requirements

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

## The FCA's objectives and regulatory principles: Compatibility statement

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7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objectives of:
- Delivering consumer protection – securing an appropriate degree of protection for consumers
  - Enhancing market integrity – protecting and enhancing the integrity of the UK financial system
  - Building competitive markets – promoting effective competition in the interests of consumers.
8. The consultation aims to ensure that the relevant market, funds and asset management, functions well by providing firms with the ability to innovate and operate funds in the most efficient manner, while ensuring good consumer outcomes. We set out how we consider our proposals advance our operational objectives in more detail in paragraphs 1.13 to 1.17 of this consultation, including how these promote effective competition in the interests of consumers and secure an appropriate degree of protection for consumers.
9. They are also relevant to the FCA's secondary objective to facilitate the international competitiveness and growth of the UK economy in the medium to long term (subject to alignment with international standards) through promoting innovation and improving confidence in the UK as a fund domicile of choice for tokenised and conventional funds, as set out in paragraph 1.2 to 1.4.
10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

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

11. These proposals will help firms seeking to launch tokenised products, and help ourselves and other supervisors in determining how to prioritise future regulatory change within our authorised fund regime and work with industry participants, trade bodies and the UK Government as we progress a broader digitalisation strategy.
12. We could set out our expectations on fund tokenisation through our ongoing engagement with the industry and trade bodies. However, consulting on our proposals provides greater certainty to the industry, and showcases the FCA as a leading thought leader in innovation, while a discussion paper allows for greater input from firms and will provide the necessary feedback to support tokenisation and drive innovation.
13. The COLL sourcebook already envisages direct dealing with the fund or depositary as an exceptional event, but does not currently support it as the sole option for authorised retail funds. We have already been approached by firms seeking waivers of existing rules to use Direct 2 Fund but do not believe this provides adequate opportunity for stakeholder input.

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

- 14.** 1We have carefully considered the proportionality of our proposals, including through consultation with internal and external stakeholders throughout the development of our proposals.
- 15.** The proposals may require firms to make changes, with associated costs, where they operate authorised funds or provide services to firms who do. The broad package of changes in this paper are optional and firms can continue to use existing dealing models and operate conventional funds. We consider that our proposals are proportionate and the benefits outweigh the costs. The CBA in Annex 3 sets out the costs and benefits of our proposals.

### **The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)**

- 16.** On balance, we do not think there is any contribution the proposals outlined in this consultation can make to these targets. We acknowledge that some public networks operate using "proof of work" consensus methods that are energy intensive. However, these networks are not generally suitable for record keeping and do not provide the virtual machine functionality necessary to support smart contracts and tokenisation of financial services products. Fund managers are subject to the ESG Sourcebook, the requirements of which include an obligation on firms to ensure that sustainability claims are fair, clear and not misleading, and that they do not use a sustainability label unless they meet the relevant conditions. In Chapter 5 of CP25/25, we proposed to apply the ESG Sourcebook to cryptoasset firms in the same way as it applies generally to all FSMA-authorised firms.

### **The general principle that consumers should take responsibility for their decisions**

- 17.** Our proposals illustrate how firms can comply with our existing rules and standards for the operation of fund registers, and our discussion chapter explores how regulation may evolve to support and protect consumers in more expansive tokenisation eco-systems. We are conducting joint work with UK and international trade bodies in consultation with consumer representatives to ensure that investors share in the benefits of tokenisation.
- 18.** Our proposals do not inhibit consumers' ability to access a range of products, nor do they seek to remove from consumers the need to take responsibility for their own decisions in relation to their use of regulated and unregulated products and services.

### **The responsibilities of senior management**

- 19.** We consider that our proposals are likely to enhance the ability of senior management of AFMs to take responsibility for their decisions by clarifying how we will approach supervision and authorisation of funds.

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

20. Our proposals are specifically designed to be proportionate and build on existing obligations in our Handbook. Our proposals are broadly optional and will apply only to firms wishing to operate tokenised products or use direct dealing models.

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

21. We have had regard to this principle and believe our proposals are compatible with it. Our proposals operate within the existing authorised fund regime.

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

22. We have developed the proposals in this consultation/discussion paper in close collaboration with industry and other external and internal stakeholders. Our proposals are based on requests from industry and we have consulted informally with firms and trade bodies prior to publication.

**In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).**

23. Our proposals are intended to support firms to act as a strong line of defence against financial crime. For instance, we have recognised that our requirements may interact with requirements under financial crime legislation in our proposals for direct dealing.

## **Expected effect on mutual societies**

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24. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies, given the sectoral limit to fund and asset management.

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

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25. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. This is set out in more detail in paragraphs 1.13 to 1.14 of the Consultation Paper.

## **Equality and diversity**

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26. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and

foster good relations between people who share a protected characteristic and those who do not.

- 27.** As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 1.29 to 1.31 of this Consultation Paper.

### **Legislative and Regulatory Reform Act 2006 (LRR)**

- 28.** We have had regard to the principles in the LRR and Regulators' Code (together the 'Principles') for the parts of the proposals that consist of general policies, principles or guidance. We consider that these parts of our proposals are compliant with the five LRR principles – that regulatory activities should be carried out in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.
- **Transparent** – We are consulting on our proposed changes with industry to articulate our proposals. Through consultation and pro-active engagement both before and during consultation, we are being transparent and providing a simple and straightforward way to engage with the regulated community.
  - **Accountable** – We are consulting on these changes and will publish final rules after considering all feedback received. We are acting within our statutory powers, rules and processes.
  - **Proportionate** – We recognise that firms may be required to make changes to how they carry out their business and have provided for an implementation period to give them time to do so. The CBA sets out further detail on the costs and benefits of our proposals.
  - **Consistent** – Our approach would apply in a consistent manner across firms operating tokenised funds or implementing direct dealing models.
  - **Targeted** – Our proposals will enhance our ability to provide targeted firm engagement and consider how to best deploy our resources.
  - **Regulators' Code** – Our proposals are carried out in a way that supports firms to comply and grow through our consideration of their feedback via the CP and refining our proposals where necessary. Our CP, CBA, draft instrument, accompanying annexes public communications and communications with firms are provided in a simple, straightforward, transparent and clear way to help firms meet their responsibilities.

## Annex 5

### Abbreviations used in this paper

Abbreviation	Description
<b>ACS</b>	Authorised Contractual Scheme
<b>AFM</b>	Authorised fund manager
<b>AGBR</b>	Advice Guidance Boundary Review
<b>AI</b>	Artificial intelligence
<b>AIF</b>	Alternative Investment Fund
<b>AIFM</b>	Alternative Investment Fund Manager
<b>AML/CFT</b>	Anti-money laundering and counter terrorist financing
<b>AMT</b>	UK Asset Management Taskforce
<b>AUM</b>	Assets under management
<b>AUT</b>	Authorised Unit Trust
<b>CASS</b>	Client Assets Sourcebook
<b>CBA</b>	Cost-benefit analysis
<b>CBDC</b>	Central bank digital currency
<b>CIS</b>	Collective investment scheme
<b>COBS</b>	Conduct of Business Sourcebook
<b>COLL</b>	Collective Investment Scheme Sourcebook
<b>CP</b>	Consultation Paper
<b>CRR</b>	Capital Requirement Regulation
<b>CSA</b>	Credit Support Annex
<b>CSD</b>	Central securities depository

Abbreviation	Description
<b>CSDR</b>	UK Central Securities Depository Regulation
<b>D2F</b>	Direct to fund
<b>DAS</b>	Dormant Asset Scheme
<b>DIGIT</b>	UK Digital Gilt Instrument Pilot
<b>DLT</b>	Distributed ledger technology
<b>DP</b>	Discussion Paper
<b>DSD</b>	Digital securities depository
<b>DSS</b>	UK Digital Securities Sandbox
<b>EMIR</b>	UK European Market Infrastructure Regulation
<b>ERC</b>	Ethereum request for comment
<b>ESG</b>	Environmental, social and governance
<b>ETF</b>	Exchange traded fund
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority
<b>FLS</b>	Financial Lives Survey
<b>FOS</b>	Financial Ombudsman Service
<b>FSB</b>	Financial Stability Board
<b>FSCS</b>	Financial Services Compensation Scheme
<b>FSMA</b>	Financial Services and Markets Act
<b>GFF</b>	Project Guardian Funds Framework
<b>IA</b>	Investment Association
<b>IAC</b>	Issues and Cancellations Account
<b>ICMA</b>	International Capital Markets Association
<b>ICVC</b>	Investment Company with Variable Capital



Abbreviation	Description
<b>IF3</b>	Investment Association's Investment Fund 3.0 Lab
<b>IM</b>	Initial margin
<b>IMAS</b>	Investment Management Association of Singapore
<b>IOSCO</b>	International Organisation of Securities Commissions
<b>JMLSG</b>	Joint Money Laundering Steering Group
<b>KYC</b>	Know your customer
<b>LDI</b>	Liability-driven investment
<b>LTAF</b>	Long-term Asset Fund
<b>MAS</b>	Monetary Authority of Singapore
<b>MLRs</b>	Money Laundering Regulations
<b>MMF</b>	Money market fund
<b>MPS</b>	Model portfolio service
<b>NAV</b>	Net asset value
<b>NFT</b>	Non-fungible token
<b>NURS</b>	UK Non-UCITS Retail Scheme
<b>OEIC</b>	Open-ended Investment Company
<b>OTC</b>	Over-the-counter transaction
<b>PRA</b>	Prudential Regulatory Authority
<b>PS</b>	Policy Statement
<b>QIS</b>	Qualified Investor Schemes
<b>REIT</b>	Real estate investment trust
<b>SCM</b>	Standardised cost model
<b>STFM</b>	Short-term funding markets
<b>SYSC</b>	Senior Management Arrangements, Systems and Controls Sourcebook

Abbreviation	Description
tMMF	Tokenised money market fund
TWG	UK Asset Management Taskforce Technology Working Group
UCITS	UK Undertakings for Collective Investment in Transferable Securities
UMR	Uncleared margin rules
VM	Variation margin

# Appendix 1

## Draft Handbook text

**COLLECTIVE INVESTMENT SCHEMES (USE OF DISTRIBUTED LEDGER  
TECHNOLOGY IN AUTHORISED FUNDS) INSTRUMENT 2025**

**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of its powers under section 139A (Power of the FCA to give guidance) of the Financial Services and Markets Act 2000.

**Commencement**

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

**Amendments to the Handbook**

- C. The Collective Investment Schemes sourcebook (COLL) is amended in accordance with the Annex to this instrument.

**Citation**

- D. This instrument may be cited as the Collective Investment Schemes (Use of Distributed Ledger Technology in Authorised Funds) Instrument 2025.

By order of the Board  
[*date*]

## Annex

### Amendments to the Collective Investment Scheme sourcebook (COLL)

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

#### 6      **Operating duties and responsibilities**

...

#### 6.4      **Title and registers**

Application

6.4.1      R      ...

(2)      ~~COLL 6.4.9~~ COLL 6.4.9R (Plan registers) also applies to the *ACD*, any other *director* and the *depository* of an *ICVC*.

6.4.1A      G      COLL 6.4.10G (Using distributed ledger technology to operate the unitholder register) and COLL 6 Annex 4 (Use of distributed ledger technology for the operation and maintenance of registers for authorised funds) apply to the *ACD* of an *ICVC*, the *authorised fund manager* of an *AUT* or *ACS*, and the *depository* of an *authorised fund*.

...

Plan registers

6.4.9      R      ...

Using distributed ledger technology to operate the unitholder register

6.4.10      G      COLL 6 Annex 4 provides *guidance* on the use of distributed ledger technology for the operation and maintenance of the *register* of an *authorised fund*.

Insert the following new annex, COLL 6 Annex 4, after COLL 6 Annex 3 (Guidance notes on UK UCITS management company of UCITS schemes: Derivative Use Report (FSA042: UCITS)). All of the text is new and is not underlined.

#### 6      **Use of distributed ledger technology for the operation and maintenance of** Annex      **registers for authorised funds** 4

Application and purpose

6      G      This Annex applies to the *authorised fund manager* and the *depository* of an  
Annex      *AUT*, *ACS* or *ICVC* which is a *UCITS scheme* or a *non-UCITS retail scheme*.  
4.1

6  
Annex  
4.2 G The *guidance* sets out the *FCA*'s views on how distributed ledger technology (DLT) may be used in the operation and maintenance of the *register* of an *authorised fund*. It also identifies a number of other matters which *firms* should consider.

6  
Annex  
4.3 G The *guidance* is designed for *authorised fund managers* and *depositories* of *authorised funds* that are considering using DLT in this way.

6  
Annex  
4.4 G In *COLL* 6 Annex 4.34G to *COLL* 6 Annex 4.36G (Personal data and other information recorded on a register using DLT), a reference to a 'data controller' has the same meaning as in *data protection legislation*.

#### Powers of the responsible firm to make changes to the register

6  
Annex  
4.5 G (1) The *rules* in *COLL* and provisions of the *OEIC Regulations* require the *authorised fund manager* or the *depository* of the *authorised fund* to establish and maintain a *register* of *unitholders* and ensure it is complete and up to date.

(2) In this Annex, the *person* who is responsible for maintaining the *register* for an *authorised fund* is referred to as the 'responsible *firm*'.

6  
Annex  
4.6 G The requirements on the responsible *firm* to establish and maintain a *register* in relation to a *UCITS scheme* or a *non-UCITS retail scheme* and keep it up to date are set out in the following places:

(1) in relation to *schemes* that are *AUTs* or *ACSSs*, *COLL* 6.4.4R (Register: general requirements and contents); and

(2) in relation to an *ICVC*, paragraphs 1 and 3 of Schedule 3 to the *OEIC Regulations*.

6  
Annex  
4.7 G To ensure that a *register* recorded on DLT is accurate and kept up to date, the responsible *firm* will need to have the power and the ability to make amendments to the *register*. Where the *register* is recorded on DLT, or utilises records on DLT, the responsible *firm* will need to ensure that it can amend that *register* as necessary without requiring the consent or agreement of any third party. This does not extend to consents or agreements that support the normal operation of the DLT network such as standard consensus mechanisms that validate the authority of those providing instructions to the network.

6  
Annex  
4.8 G The ability of the responsible *firm* to make unilateral changes to such a *register* may not exist by default. Such functionality could be delivered through 'smart contracts' (see *COLL* 6 Annex 4.11G to *COLL* 6 Annex 4.15G (Smart contracts and eligibility verification)), or through off-chain functionality embedded into contractual terms with *unitholders*. The responsible *firm* may also be able to effect updates to the *register* through direct control of private keys, or a 'master-node' function.

#### Remedying changes to a register made by a third party

- 6  
Annex  
4.9
- G In addition to being used to operate a *register*, DLT may provide other opportunities. For example, DLT may allow distributors or *unitholders* to instruct or request amendments to the *register*. Records on DLT are formed by reference to a series of transactions, including ‘burning’ and ‘minting’ tokens representing *units*. DLT may allow distributors or *unitholders* to instruct or request amendments to the *register* by submitting new records to the DLT.
- 6  
Annex  
4.10
- G In the *FCA*’s view, the use of DLT which allows parties other than the responsible *firm* to alter the *register* of an *authorised fund* can still be compatible with the *rules* and the *OEIC Regulations*, provided the responsible *firm* is able to make unilateral changes to the *register* – for example, to reverse incorrect entries or create new ones. The responsible *firm* will also need to have processes and procedures in place to identify incorrect entries and then take remedial action to rectify them.

#### Smart contracts and eligibility verification

- 6  
Annex  
4.11
- G The use of DLT may enable *unitholders* to transfer *units* between themselves or to third parties. This gives rise to the risk the *register* is incomplete and not up to date and also that a *unit* is transferred to a *person* who is not an eligible *unitholder* under the *rules*, the *Act*, the *instrument constituting the fund* or the *prospectus*.
- 6  
Annex  
4.12
- G To address these risks, the responsible *firm* should consider whether additional technology controls are required to ensure that the *units* are only transferred to, from, or between eligible *unitholders*.
- 6  
Annex  
4.13
- G One way in which such transfers of *units* could be controlled is through arrangements whereby tokens are transferred only to known account numbers that the *authorised fund manager* has verified as belonging to a *person* who is an eligible *unitholder*. This is often referred to as ‘whitelisting’, or having an ‘allow list’ which references a set of addresses on the DLT enabled through ‘smart contracts’.
- 6  
Annex  
4.14
- G Such functionality could also be used to keep track of a *unitholder*’s tax status or their right to access certain *classes* of *unit* with a particular fee rate or minimum investment limit. A *firm* may utilise accepted token standards that allow for the verification of a *unitholder*’s identity and ensure that they have the necessary capacity and credentials to hold *units*.
- 6  
Annex  
4.15
- G Where the responsible *firm* relies on smart contracts for the verification of *unitholder* addresses or the operation or management of the *fund*, these should be regularly audited to meet evolving industry standards – for example, in relation to security. This will help the responsible *firm* demonstrate compliance with its obligations under *Principle 2*, which requires a *firm* to conduct its business with due skill, care and diligence, and *Principle 3*, which requires a *firm* to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

## Aggregation of units

- 6  
Annex  
4.16 G In broad terms the *COLL rules* and the *OEIC Regulations* also require that a *register* specifies the number of *units* in each *class* held by a *unitholder* (see *COLL 6.4.4R(3)(b)*) and paragraph 6(1)(c) of Schedule 3 to the *OEIC Regulations*).
- 6  
Annex  
4.17 G This may be challenging where an *authorised fund* uses DLT, as each group of network transactions are recorded as blocks on the blockchain and a *unitholder* may hold positions through different wallets represented by different addresses.
- 6  
Annex  
4.18 G To comply with the requirements referred to in *COLL 6 Annex 4.16G*, the responsible *firm* should ensure there are systems in place (whether on or off DLT) that can aggregate the information held on the DLT.

## Management of network risks and outsourcing

- 6  
Annex  
4.19 G An interruption to a DLT network could prevent the *authorised fund manager* or the responsible *firm* from accessing the *register* to look at the positions of *unitholders* looking to *redeem* their *units*.
- 6  
Annex  
4.20 G As already noted, *Principle 3* requires a *firm* to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. *Firms* are also required to assess and manage risks including *operational risks* under the requirements in *SYSC 7* (Risk control), *COLL 6.11* (Risk control and internal reporting), *COLL 6.12* (Risk management policy and risk measurement), *FUND 3.7* (Risk management) and articles 38 to 45 of the *AIFMD level 2 regulation*.
- 6  
Annex  
4.21 G To comply with these requirements, the *FCA* expects an *authorised fund manager* to include within its risk management policies and procedures the risks of DLT network outages. An *authorised fund manager* should ensure that it has appropriate operational and business resilience plans that enable it to manage such risks.
- 6  
Annex  
4.22 G The *authorised fund manager* should have alternative processes and contingencies in place to allow for *unitholders* to *buy, redeem* or transfer their *units* in the event of a network outage, including where use of fiat *money* or off-chain processes may be necessary.
- 6  
Annex  
4.23 G In exceptional circumstances where the DLT network becomes unavailable for an extended period of time, the *authorised fund manager* and the *depository* should have processes and procedures in place to allow the *authorised fund* to be wound-up in accordance with the *rules* in *COLL 7*, by realising the assets and distributing the proceeds to *unitholders* proportionately to their respective interests.



## Inspection of the register

- 6  
Annex  
4.24
- G *COLL 6.4.4R(6)(c)* requires the responsible *firm* to make the *register* available for inspection free of charge in the *United Kingdom*. Paragraph 9 of Schedule 3 to the *OEIC Regulations* requires the *register* to be kept available for inspection at the company's head office or at another place in that part of the *United Kingdom* where the company is registered which has been notified to the *FCA* under regulation 36(3)(b).
- 6  
Annex  
4.25
- G To comply with these requirements, a *firm* may use systems that combine both on- and off-chain records where this cannot be achieved fully on DLT.

## Public or consortium-based DLT networks

- 6  
Annex  
4.26
- G Where public or consortium-based DLT networks are used for the *issue* and settlement of *units*, these activities may take place *overseas*.
- 6  
Annex  
4.27
- G The *authorised fund manager* and the *depository* should consider whether such arrangements give rise to conflicts of laws in relation to the *scheme* and the particular arrangements proposed as regards the *scheme's* domicile and its jurisdiction or service.

## Compliance with the Money Laundering Regulations

- 6  
Annex  
4.28
- G *Authorised fund managers* and *depositories* will need to ensure they comply with the requirements of the *Money Laundering Regulations* and applicable sanctions regimes.
- 6  
Annex  
4.29
- G A *firm* may need to be registered as a cryptoasset business under the *Money Laundering Regulations* where it is providing tokenised *units* in exchange for cash and where this is recorded on a *register* that is operated through DLT.
- 6  
Annex  
4.30
- G Where a *firm* is registered under the *Money Laundering Regulations*, the *firm* will need to assess its exposure to the risk of money laundering. The *firm* would need to put in place the necessary policies, controls and procedures to mitigate the risks identified.
- 6  
Annex  
4.31
- G A *firm* registered under the *Money Laundering Regulations* must take steps to ensure it knows sufficient information about the identity of its customers, and understand the nature of its expected relationship with those customers. When undertaking certain activities in the course of business, a *firm* subject to the *Money Laundering Regulations* must apply the customer due diligence measures set out in regulation 28 of the Regulations where a *firm* establishes a business relationship, carries out an occasional transaction, suspects money laundering or terrorist financing or doubts the accuracy of customer identification information.
- 6  
Annex  
4.32
- G Customer due diligence measures include duties to identify customers, verify a customer's identity and assess, and where appropriate obtain information on, the purpose and intended nature of the business relationship or occasional

transaction. The information that a *firm* obtains from its customers will form the basis for subsequent ongoing monitoring. A *firm* is also required to keep records to demonstrate compliance.

- 6  
Annex  
4.33
- G A *firm* could support its compliance with these requirements by having appropriate controls in place such as ‘whitelisting’ where *units* can only be transferred to known account numbers. However, systems which operate on the basis of ‘blacklisting’ (or a ‘deny list’) for specified wallet addresses would require additional verification procedures to ensure that the *firm* complies with its obligations under the *Money Laundering Regulations*, the *rules* and other legislation.

Personal data and other information recorded on a register using DLT

- 6  
Annex  
4.34
- G Where an *authorised fund* uses DLT to operate the *register*, the responsible *firm* and/or any other person who is the data controller of the personal data in the *register* (if different) will need to ensure they comply with *data protection legislation*. This is particularly the case where public networks are used, and recorded information is not secured through encryption by default.
- 6  
Annex  
4.35
- G When considering how to comply with the *data protection legislation*, the responsible *firm* and/or any other *person* who is the data controller (if different) should consider inherent risks such as the permanence of records on the DLT network and that emerging technology such as quantum computing could compromise information about *unitholders*.
- 6  
Annex  
4.36
- G Information on the DLT may also allow trading strategies to be identified or deduced. For example, where transactions in *units* are recorded or instructed on DLT before execution at a future *valuation point*, it may be possible for third parties to anticipate large deals in underlying *securities*. Where relevant, a *firm* should consider the implications of this in product design and ongoing liquidity monitoring controls and ensure that *unitholders* are not adversely affected.

Amend the following text as shown.

## 8 Qualified investor schemes

...

### 8.5 Powers and responsibilities

...

#### 8.5.8 R ...

Using distributed ledger technology to operate the unitholder register

- 8.5.8A G (1) *COLL 6 Annex 4 provides guidance on the use of distributed ledger technology for the operation and maintenance of the register of an authorised fund.*

- (2) The *guidance* referred to in (1) applies to the *authorised fund manager* and the *depository* of an *authorised fund* subject to the *rules* in this chapter as if references to a *UCITS scheme* or *non-UCITS retail scheme* were references to a *qualified investor scheme*.

...

## 15 Long-term asset funds

...

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

...

#### 15.7.12 R ...

Using distributed ledger technology to operate the unitholder register

15.7.12 G (1) COLL 6 Annex 4 provides *guidance* on the use of distributed ledger technology for the operation and maintenance of the *register* of an authorised fund.

A

- (2) The *guidance* referred to in (1) applies to the *authorised fund manager* and the *depository* of an *authorised fund* subject to the *rules* in this chapter as if references to a *UCITS scheme* or *non-UCITS retail scheme* were references to a *long-term asset fund*.

...

**COLLECTIVE INVESTMENT SCHEMES (DIRECT DEALING)  
INSTRUMENT 2025**

**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the 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 137T (General supplementary powers);
    - (c) section 139A (Power of the FCA to give guidance);
    - (d) section 247 (Trust scheme rules); and
    - (e) section 261I (Contractual scheme rules);
  - (2) regulation 6(1) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
  - (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

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

**Amendments to the Handbook**

- D. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Collective Investment Schemes sourcebook (COLL) is amended in accordance with Annex B to this instrument.

**Citation**

- F. This instrument may be cited as the Collective Investment Schemes (Direct Dealing) Instrument 2025.

By order of the Board  
*[date]*

## Annex A

## Amendments to the Glossary of definitions

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

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

<i>direct dealing</i>	(in <i>COLL</i> ) the direct <i>issue</i> and <i>cancellation</i> of <i>units</i> in accordance with <i>COLL</i> 6.2.7AR (Issue and cancellation of units by a direct dealing scheme), or <i>COLL</i> 6.2.7AR as applied by <i>COLL</i> 8.5.10R (Issue and cancellation of units) or <i>COLL</i> 15.8.5R (Issue and cancellation of units).
<i>direct dealing scheme</i>	an <i>authorised fund</i> or a <i>sub-fund</i> which: <ul style="list-style-type: none"> <li>(a) operates <i>direct dealing</i> arrangements only; and</li> <li>(b) operates an <i>issue and cancellation account</i>.</li> </ul>
<i>issue and cancellation account</i>	a bank account held by, or for or on behalf of, an <i>authorised fund</i> or a <i>sub-fund</i> the purpose of which is to receive <i>money</i> for the <i>issue</i> of <i>units</i> and to pay out <i>money</i> for the <i>cancellation</i> of <i>units</i> .
<i>omnibus issue and cancellation account</i>	an <i>issue and cancellation account</i> held by an <i>authorised fund</i> that is an <i>umbrella</i> , for or on behalf of 2 or more <i>sub-funds</i> .

Amend the following definitions as shown.

<i>limited redemption arrangements</i>	<p>(1) <u>(in relation to an <i>authorised fund</i> that is not a <i>direct dealing scheme</i>) the arrangements operated by an <i>authorised fund manager</i> for the <i>redemption</i> of <i>units</i> in an <i>authorised fund</i> where the <i>authorised fund manager</i> holds <del>himself</del> <u>itself</u> out to <i>redeem units</i> in that <i>scheme</i> less frequently than twice in a <i>calendar month</i> in accordance with <i>COLL</i> 6.2.19R (Limited redemption); <u>or</u></u></p> <p>(2) <u>(in relation to an <i>authorised fund</i> that is a <i>direct dealing scheme</i>) the arrangements operated for the <i>cancellation</i> of <i>units</i> less frequently than twice in a <i>calendar month</i> in accordance with <i>COLL</i> 6.2.19R (Limited redemption).</u></p>
<i>redemption</i>	<p>(1) (in relation to <i>units</i> in an <i>authorised fund</i> <del>that is not a <i>direct dealing scheme</i></del>) the purchase of <del>them</del> <i>units</i> from their <i>holder</i> by the <i>authorised fund manager</i> acting as a <i>principal</i>; <u>or</u></p>

(2) (in relation to units in an authorised fund that is a direct dealing scheme) a cancellation of units by:

(a) the ICVC; or

(b) in relation to an AUT or ACS, the depositary or, where permitted by the instrument constituting the fund, the authorised fund manager.

sale

(1) (in COLL) (in relation to units in an authorised fund that is not a direct dealing scheme) the sale of units by the authorised fund manager as principal;

(2) (in COLL) (in relation to units in an authorised fund that is a direct dealing scheme) the issue of units by:

(a) the ICVC; or

(b) in relation to an AUT or ACS, the depositary or, where permitted by the instrument constituting the fund, the authorised fund manager.

## Annex B

### Amendments to the Collective Investment Schemes sourcebook (COLL)

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

## 3 Constitution

...

### 3.2 The instrument constituting the fund

...

Table: contents of the instrument constituting the fund

- 3.2.6 R This table belongs to *COLL* 3.2.4R (Matters which must be included in the instrument constituting the fund).

...	
	<b>Restrictions on sale, <u>issue, cancellation</u> and redemption</b>
13	Where relevant, the restrictions which will apply in relation to the <i>sale, <u>issue, cancellation</u> and redemption of units</i> under <i>COLL</i> 6.2.16R (Sale and redemption).
...	
	<b>ACs: UCITS and NURS eligible investors</b>
...	
27F	A statement that the <i>authorised contractual scheme manager</i> must <i>redeem</i> , or in respect of a <i>direct dealing scheme</i> effect the <u><i>cancellation of, units</i></u> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i> ) other than a <i>person</i> meeting the criteria in paragraph 27E.
...	

...

## 4 Investor Relations

...

## 4.2 Pre-sale notifications

...

Table: contents of the prospectus

4.2.5 R This table belongs to *COLL* 4.2.2 R (Publishing the prospectus).

...			
Characteristics of the units			
...			
5A	ACSSs: UCITS and NURS eligible investors		
	...		
	(b)	A statement that the <i>authorised contractual scheme manager</i> must <del>redeem units</del> <u>redeem or effect the cancellation of units</u> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i> ) other than a <i>person</i> meeting the criteria in paragraph 5A(a).	
...			
Dealing			
17	The following particulars:		
	(a)	the procedures, the dealing periods and the circumstances in which the <i>authorised fund manager</i> will effect:	
		...	
		(ii)	any direct <i>issue or cancellation of units</i> :
			(A) by an <i>ICVC</i> or <u>in the case of an <i>AUT</i> or <i>ACS</i> by the <i>depository</i> of an <i>AUT</i> or <i>ACS</i> (as appropriate) through the <i>authorised fund manager</i> or, where permitted by the <i>instrument constituting the fund</i>, the <i>authorised fund manager</i> in accordance with <i>COLL</i> 6.2.7R(2) (<del>Issue Direct issue and cancellation of units through an authorised fund manager</del>); <u>or</u></u>
			(B) <u>in relation to a <i>direct dealing scheme</i>, by an <i>ICVC</i> or, for an <i>AUT</i> or <i>ACS</i>, the <i>depository</i></u>



			or, where permitted by the <i>instrument constituting the fund</i> , the <i>authorised fund manager</i> in accordance with <i>COLL 6.2.7AR</i> (Issue and cancellation of units by a direct dealing scheme);
	(b)	the circumstances in which the <i>redemption or cancellation of units</i> may be suspended;	
	...		
	(g)	the circumstances and procedures for the limitation or deferral of <i>redemptions or cancellations</i> in accordance with <i>COLL 6.2.19R</i> (Limited redemption) or <i>COLL 6.2.21R</i> (Deferred redemption);	
	(h)	...	
	(i)	whether a <i>unitholder</i> may effect transfer of title to <i>units</i> on the authority of an <i>electronic communication</i> and if so the conditions that must be satisfied in order to effect a transfer; <del>and</del>	
	(j)	if the <i>authorised fund manager</i> deals as principal in <i>units</i> of the <i>scheme</i> and holds them for that purpose, a statement of its policy for doing so and, where applicable:	
		...	
		(ii)	a statement of non-accountability as referred to in <i>COLL 6.7.16G</i> ; <u>and</u>
	(k)	<u>if an <i>issue and cancellation account</i> is used, an explanation of the potential consequences if a <i>person</i> with whom <i>money</i> in the <i>issue and cancellation account</i> has been placed on <i>deposit</i> becomes insolvent or is otherwise be unable to make <i>payments</i>.</u>	
...			

...

## 5 Investment and borrowing powers

...

### 5.2 General investment powers and limits for UCITS schemes

...

## Valuation guidance

5.2.5 R ...

5.2.5A G One of the effects of COLL 5.2.5R(1) is that for the purposes of this chapter, sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the valuation of *scheme property* of any *sub-fund* or *scheme* (as applicable) (see COLL 6.3.3R(3) (Valuation)).

...

~~Guidance on spread: general~~

5.2.11A G ...

(3) ~~In applying the spread limit of 20% in value of *scheme property* which may consist of *deposits* with a single body, all uninvested cash comprising *capital property* that the *depository* holds should be included in calculating the total sum of the *deposits* held by it and other companies in its group on behalf of the *scheme*. [deleted]~~

...

## Investment in collective investment schemes

5.2.13 R A *UCITS scheme* must not invest in *units* in a *collective investment scheme* (“second *scheme*”) unless the second *scheme* satisfies all of the following conditions, and provided that no more than 30% of the value of ~~the *UCITS scheme*~~ *scheme property* is invested in second *schemes* within (1)(b) to (e):

...

...

## 5.5 Cash, borrowing, lending and other provisions

...

## Cash and near cash

5.5.3 R (1) Cash and *near cash* must not be retained in the *scheme property* except to the extent that this may reasonably be regarded as necessary in order to enable:

...

(b) ~~redemption of~~ dealing in units; or

...

...

## General power to borrow

5.5.4 R ...

(8) ...

(9) Sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are not to be used to repay money borrowed under this rule.

## Borrowing limits

...

5.5.5A G An *authorised fund manager* should ensure when calculating the *authorised fund's* borrowing for COLL 5.5.5R(1) that:

(1) the figure calculated is the total of all borrowing in all currencies by the *authorised fund*; ~~and~~

(2) long and short positions in different currencies are not netted off against each other; and

(3) any borrowing in an *issue and cancellation account* is attributed to a *scheme* or *sub-fund* but any sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the value of the *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

## 5.6 Investment powers and borrowing limits for non-UCITS retail schemes

...

## Guidance on spread: general

5.6.7A G ...

(3) ~~In applying the spread limit of 20% in value of *scheme property* which may consist of *deposits* with a single body, all uninvested cash comprising *capital property* that the *depository* holds should be included in calculating the total sum of the *deposits* held by it on behalf of the *scheme*. [deleted]~~

...

## 5.7 Investment powers and borrowing limits for NURS operating as FAIFs

...

Guidance on spread: general

5.7.6 G ...

- (3) ~~In applying the spread limit of 20% in value of *scheme property* which may consist of *deposits* with a single body, all uninvested cash comprising *capital property* that the *depository* holds should be included in calculating the total sum of the *deposits* held by it on behalf of the *scheme*. [deleted]~~

...

## 6 Operating duties and responsibilities

...

### 6.2 Dealing

...

Purpose

6.2.2 G ...

- (2) *An authorised fund manager of an AUT, ACS or ICVC is responsible for arranging for the issue and the cancellation of units for the authorised fund. An authorised fund manager of an AUT, ICVC or co-ownership scheme is permitted to sell and redeem units for its own account. An authorised fund manager of a limited partnership scheme is only permitted to sell and redeem units as agent for the scheme. The rules in this section are intended to ensure that the authorised fund manager treats the authorised fund and unitholders fairly when dealing, or arranging for ~~the issue or cancellation of dealing in~~ units, and treats clients fairly when they ~~purchase or sell~~ deal in units.*
- (3) This section also sets out common standards for how the amounts in relation to *unit* transactions are to be paid. These arrangements, which may vary according to whether or not the authorised fund manager deals as principal, include the *initial offer of units*, and the exchange of *units* for *scheme property* ~~and issues and cancellations of units by an ICVC, or by the depository of an AUT or ACS, carried out directly with the unitholder.~~

...

...

Issue and cancellation of units in an AUT or ACS

- 6.2.6 R (1) ~~The~~ Except where the *authorised fund* is a *direct dealing scheme*, the depositary must issue or cancel units in an AUT or ACS when instructed by the authorised fund manager.
- (1A) Where the authorised fund is a direct dealing scheme that is an AUT or ACS, the depositary or, where permitted by the instrument constituting the fund, the authorised fund manager must issue or cancel units by making a record of the issue or cancellation and of the number of the units of each class concerned.
- (2) Any instructions given by the *authorised fund manager* under (1) must state, for each class of unit to be *issued* or *cancelled*, the number to be *issued* or *cancelled*, expressed either as a number of *units* or as an amount in value (or as a combination of the two).
- (3) If the *depositary* is of the opinion that it is not in the interests of *unitholders* that any *units* should be *issued* or *cancelled* or that to do so would not be in accordance with the *trust deed*, *contractual scheme deed* or *prospectus*, it must notify the *authorised fund manager* of that fact and:
- (a) where (1) applies, it is then relieved of the obligation to *issue* or *cancel* those units; or
- (b) where (1A) applies, the authorised fund manager must not *issue* or *cancel* those units, or must effect the *cancellation* of that *issue* or the reversal of that *cancellation*.

...

~~Issue~~ Direct issue and cancellation of units through an authorised fund manager

- 6.2.7 R (1) The *authorised fund manager* of an *authorised fund* that is not a *direct dealing scheme* may require, on agreement with the *depositary*, or may permit, on the request of the investor, direct *issues* and *cancellations* of *units* by ~~an ICVC or by the depositary of an AUT or ACS;~~
- (a) the ICVC; or
- (b) (where the scheme is an AUT or ACS) the depositary or, where permitted by the instrument constituting the fund, the authorised fund manager.
- (2) ...

Issue and cancellation of units by a direct dealing scheme

- 6.2.7A R The authorised fund manager and depositary of a direct dealing scheme, and an ICVC and any other director of an ICVC that is a direct dealing scheme, must ensure that:

- (1) the issue and cancellation of units is made only by:
  - (a) the ICVC; or
  - (b) (where the scheme is an AUT or ACS) the depositary or, where permitted by the instrument constituting the fund, the authorised fund manager;
- (2) the direct dealing scheme operates an issue and cancellation account in accordance with COLL 6.2.7BR (Operation of an issue and cancellation account);
- (3) the authorised fund manager is not permitted to deal in units of the scheme as principal;
- (4) the instrument constituting the fund provides for the arrangements described in (1) to (3);
- (5) the prospectus provides details of the procedures to be followed, which must be consistent with the rules in this section; and
- (6) all classes of units in a sub-fund, or a scheme which is not an umbrella, must use the same issue and cancellation account.

#### Operation of an issue and cancellation account

6.2.7B     R     An authorised fund manager, a depositary, an ICVC and any other director of an ICVC of an authorised fund that is a direct dealing scheme which uses an issue and cancellation account, must ensure that:

- (1) money which is not attributed to the scheme, or to a specific sub-fund, must be returned to the sender or paid into a client bank account by close of the business day following receipt;
- (2) where an omnibus issue and cancellation account is used, the assets of one sub-fund must not be used to meet the liabilities of another;
- (3) money in the issue and cancellation account attributed to a sub-fund, or unattributed sums allocated in accordance with COLL 6.7.17R (Allocation of scheme property) must be included for the purposes of COLL 5.2.11(3) (Spread: general) and COLL 5.6.7R(2) (Spread: general);
- (4) the issue and cancellation account must be operated so that it is not overdrawn as at the close of any business day; and
- (5)
  - (a) (subject to (5)(b)), the issue and cancellation account must be reconciled promptly;
  - (b) a reconciliation should be performed in respect of each dealing day as at a fixed point; and

- (c) where the *scheme* has fewer than 2 regular *valuation points* for the purposes of *dealing in units* in any *month*, reconciliations should be performed at a frequency consistent with the frequency of such *valuation points*.

- 6.2.7C      G    (1)    An authorised fund manager should be able to demonstrate that it has effective controls over the operation of any *issue and cancellation account*.
- (2)    An authorised fund manager should ensure that all errors which result in a breach of *COLL 6.2.7AR* (Issue and cancellation by a direct dealing scheme) or *COLL 6.2.7BR* (Operation of an issue and cancellation account) are recorded. As soon as an error is discovered, the authorised fund manager should report the fact to the *depository*, together with details of the action taken, or to be taken, to avoid repetition of the error.

- 6.2.7D      G    (1)    In determining whether any *sub-funds* of an *umbrella* should share an *issue and cancellation account*, the authorised fund manager should be satisfied such use presents minimal risk of adverse consequences for *unitholders*.

- (2)    The matters an authorised fund manager should consider in (1) include:
- (a)    contagion risk;
- (b)    the strategy, risk profile and target market of each *sub-fund* and its use of leverage; and
- (c)    whether individual cash movements can be promptly attributed to the correct *sub-fund*.

...

Box management errors guidance

- 6.2.12      G    Explanatory table: This table belongs to *COLL 6.2.2 G(4)* (Purpose).

Correction of box management errors		
...		
<b>3</b>	<b>Recording and reporting of box management errors</b>	
	...	
	(3)	A <i>depository</i> should also make <del>a return</del> returns to the <i>FCA</i> (in the manner prescribed by <del><i>SUP 16.6.8R</i></del> <i>SUP 16.6.6R</i> ) <del>on a quarterly basis</del> .

## Payment for units issued

- 6.2.13 R (1) The *authorised fund manager of a scheme that is not a direct dealing scheme* must, by the close of business on the fourth *business day* following the *issue* of any *units*, arrange for payment to the *depository* of an *AUT* or *ACS* or the *ICVC* of:
- ...
- (3) ...
- (4) The *authorised fund manager of a direct dealing scheme* must ensure adequate arrangements are in place for *unitholders* or their agents to make timely payments to the *ICVC* or the *depository* of the *AUT* or *ACS*.
- (5) Where an investor in a *direct dealing scheme* has not made payment to the *ICVC* or the *depository* of the *AUT* or *ACS* within the period specified in the *prospectus*, the *authorised fund manager* must reimburse the *authorised fund* for any lost interest unless the amount involved is not, in the *depository's* opinion, material to the *authorised fund*.

## Payment for cancelled units

- 6.2.14 R (1) On cancelling *units* the *authorised fund manager* must, before the expiry of the fourth *business day* following the *cancellation* of the *units* or, if later, as soon as practicable after delivery to the *depository* of the *AUT* or *ACS* or the *ICVC* of such evidence of title to the *units* as it may reasonably require, require the *depository* to pay, or arrange for payment of:
- ...
- in accordance with (1A).
- (1A) The *depository or authorised fund manager* must ~~pay~~ arrange for payment of the amount in (1), as relevant:
- (a) ...
- (b) ~~where relevant~~, to the *unitholder*;
- ...
- ...

...

## Sale and redemption



6.2.16 R (1) ...

(1A) Paragraphs (2), (3), (4), (6) and (7) of this rule do not apply to a *direct dealing scheme*.

(2) ...

(2A) The *authorised fund manager* of a *direct dealing scheme* must ensure that, at all times during the *dealing day*, the *issue of units* in the *authorised fund* is effected at the request of an investor, in accordance with the conditions in the *instrument constituting the fund* and the *prospectus* unless:

(a) it has reasonable grounds to refuse such *issue*; or

(b) the *issue of units* is prevented under COLL 6.2.18R (Limited issue).

(3) ...

(3A) Subject to COLL 6.2.19R (Limited redemption) and COLL 6.2.21R (Deferred redemption), the *authorised fund manager* of a *direct dealing scheme* must ensure that, at all times during the *dealing day*, the *cancellation of units* in the *authorised fund* is effected at the request of a qualifying *unitholder*, in accordance with the conditions in the *instrument constituting the fund* and the *prospectus* unless it has reasonable grounds to refuse such *cancellation*.

(4) ...

(4A) On agreeing to a *cancellation of units* in (3A), the *authorised fund manager* of a *direct dealing scheme* must ensure that the *unitholder* is paid the appropriate proceeds of the *cancellation* within the period specified in (5) unless it has reasonable grounds for withholding all or any part of the proceeds.

(5) Except where (5A) applies, the period in (4) or, as applicable, (4A) expires at the close of business on the fourth *business day* following the later of:

(a) the *valuation point* at which the *price* for the *redemption* or *cancellation* was determined; or

(b) the time when the *authorised fund manager* person responsible for *redeeming* or *cancelling units* has all the duly executed instruments and authorisations to effect (or enable the *authorised fund manager* to effect) the transfer of title to the *those units* or their *cancellation*.

...

(6) ...

(6A) Except where (7A) applies, and subject to COLL 6.2.21R (Deferred redemption), the person responsible for the issue and cancellation of units for a direct dealing scheme must issue or cancel them at a price determined no later than the end of the business day immediately following the receipt and acceptance of an instruction to do so, or at the next valuation point for the purposes of dealing in units if later.

(7) ...

(7A) Where the authorised fund operates limited redemption arrangements, the person responsible for the issue and cancellation of units in a direct dealing scheme must issue or cancel units at a price determined no later than the expiry of a period of 185 days from the date of the receipt and acceptance of the instruction to issue or cancel.

...

(11) ~~Paragraph~~ Paragraphs (4) and (4A) does do not apply where COLL 6.2.17AR (Transfers under the Dormant Assets Act 2022) applies.

#### Sale and redemption: guidance

6.2.17 G (1) The *prospectus* of an *authorised fund* may allow the *authorised fund manager* to identify a point in time in advance of a *valuation point* (a cut-off point) after which ~~it will not accept~~ instructions to *sell, issue, cancel* or *redeem units* ~~at~~ will not be accepted for that *valuation point*. In order to protect *customers'* interests, the cut-off point should be no earlier than the close of business on the *business day* before the *valuation point* it relates to. If there is more than one *valuation point* in a *day* the cut-off should not be before any previous *valuation point*.

...

(3) Where (1) applies, different cut-off points may be used to differentiate between the methods of submitting *dealing* instructions ~~to sell or redeem to the authorised fund manager~~ but not to differentiate between *unitholders* or potential *unitholders*.

...

...

#### Limited redemption

6.2.19 R ...

(2) Where (1) applies, the *scheme* must provide for *sales* and *redemptions* or (in the case of a *direct dealing scheme*) *issues* and *cancellations* at least once in every six *months*.

- (3) Within a *scheme*, ~~unit classes~~ unit classes may operate different arrangements for *sales*, *issues*, *cancellations* and *redemptions* of *units* provided there is no prejudice to the interests of any *unitholder*, subject to COLL 6.2.7AR(6) (Issue and cancellation of units by a direct dealing scheme).
- (4) The *scheme* may provide for *issues* or *sales* of *units* of any *class* to be executed at a greater frequency than *redemptions* or cancellations of *units* of the same *class*.

...

#### Deferred redemption

- 6.2.21 R (1) Subject to (1A), (3), and (4), the *instrument constituting the fund* and the *prospectus* of an *authorised fund* which has at least one *valuation point* on each *business day* may permit deferral of *redemptions* or (in the case of a direct dealing scheme) cancellations at a *valuation point* to the next *valuation point* where the requested *redemptions* or cancellations exceed 10%, or some other reasonable proportion disclosed in the *prospectus*, of the *authorised fund's* value.
- (1A) Subject to (3) the *instrument constituting the fund* and the *prospectus* of a *non-UCITS retail scheme* operating as a *FAIF* may permit deferral of *redemptions* or (in the case of a direct dealing scheme) cancellations at a *valuation point* to a following *valuation point* where the requested *redemptions* or cancellations exceed 10%, or some other reasonable proportion disclosed in the *prospectus*, of the *authorised fund's* value.
- (2) Any deferral of *redemptions* or (in the case of a direct dealing scheme) cancellations under (1) or (1A) must be undertaken in accordance with the procedures explained in the *prospectus* which must ensure:
- (a) the consistent treatment of all *unitholders* who have sought to *redeem* or cancel *units* at any *valuation point* at which *redemptions* or cancellations are deferred; and
  - (b) that all *deals* relating to an earlier *valuation point* are completed before those relating to a later *valuation point* are considered.

...

...

### 6.3 Valuation and pricing

...

## Valuation

- 6.3.3 R (1) To determine the *price of units* the *authorised fund manager* must carry out a fair and accurate valuation of all the *scheme property* in accordance with the *instrument constituting the fund* and the *prospectus*.
- (2) ...
- (3) For the purposes of (1), sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the valuation of *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

## Dilution

- 6.3.8 R (1) Subject to (1A), when arranging to ~~sell, redeem~~ *redeem*, *issue* or ~~cancel~~ *cancel units*, or when *units* are *issued* or ~~cancelled~~ *cancelled* under *COLL 6.2.7R(1) (Issues Direct issue and cancellation of units through an authorised fund manager) or COLL 6.2.7AR (Issue and cancellation of units by a direct dealing scheme)*, an *authorised fund manager* is permitted to:
- ...
- ...
- (3) A *dilution levy* becomes due and payable at the same time as payment or transfer of property becomes due for the *issue, sale, redemption or cancellation* ~~and any such payment in respect of a *dilution levy* must be paid to the *depository* to become part of *scheme property* as soon as practicable after receipt.~~
- ...

...

## Publication of prices

- 6.3.11 R Where the *authorised fund manager* is prepared to *deal* in *units*, ~~or~~ is willing to *issue* or *cancel units*, under ~~*COLL 6.2.7*~~ *COLL 6.2.7R* or where the *authorised fund* is a *direct dealing scheme* (see *COLL 6.2.7AR*), ~~it~~ the *authorised fund manager* must make the *dealing prices* public in an appropriate manner.

...

## 7 Suspension of dealings, termination of authorised funds and side pockets

...

### 7.2 Suspension and restart of dealings

Requirement

7.2.-3 R (1) ...

(1A) Sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the value of the *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

...

### 7.3 Winding up a solvent ICVC and terminating or winding up a sub-fund of an ICVC

...

Manner of winding up or termination

...

7.3.7A G For the purposes of this section an *ICVC* may be treated as having been wound up or a *sub-fund* terminated upon completion, where relevant, of all of the steps in (1) to (3):

...

(2) the *scheme property* being realised or distributed in accordance with *COLL 7.3.7R(8)* which should include appropriate resolution of unattributed sums in any *issue and cancellation account*; and

...

...

### 7.4 Winding up an AUT and terminating a sub-fund of an AUT

...

When an AUT is to be wound up or a sub-fund terminated

7.4.3 R (1) Upon the happening of any of the events or dates referred to in (2) and not otherwise:

...

- (d) the *manager* must cease to issue or cancel, or to arrange the issue or cancellation of units under *COLL 6.2.7R* (~~Issue Direct issue and cancellation of units through an authorised fund manager~~) or *COLL 6.2.7AR* (Issue and cancellation of units by a direct dealing scheme), except in respect of the final cancellation under *COLL 7.4.4R* (1) or (2);

...

#### Manner of winding up or termination

- 7.4.4 R (1) Where *COLL 7.4.3R*(2)(f) applies, the *trustee* or, where permitted by the instrument constituting the fund, the authorised fund manager must cancel all units in issue and the trustee must wind up the *AUT* or terminate the *sub-fund* in accordance with the approved *scheme of arrangement*.

...

- 7.4.4A G For the purposes of this section, an *AUT* may be treated as having been wound up or a *sub-fund* terminated upon completion, where relevant, of all of the steps in (1) to (3):

...

- (2) the *scheme property* being realised or distributed in accordance with *COLL 7.4.4R*(5) which should include appropriate resolution of unattributed sums in any issue and cancellation account; and

...

...

#### 7.4A Winding up a solvent ACS and terminating a sub-fund of a co-ownership scheme

...

When an ACS is to be wound up or a sub-fund of a co-ownership scheme terminated

- 7.4A.4 R (1) Upon the happening of any of the matters or dates referred to in (3), and subject to the requirement of (4) being satisfied, and not otherwise:

...

- (d) the *authorised contractual scheme manager* must cease to issue or cancel, or to arrange the issue or cancellation of units under *COLL 6.2.7R* (~~Issue Direct issue and cancellation of units through an authorised fund manager~~) or *COLL 6.2.7AR* (Issue

and cancellation of units by a direct dealing scheme), except in respect of the final *cancellation* under COLL 7.4A.6R(1) or (2);

...

...

...

Manner of winding up or termination

...

7.4A.7 G For the purposes of this section, an *ACS* may be treated as having been wound up or a *sub-fund* of a *co-ownership scheme* terminated upon completion, where relevant, of all of the steps in (1) to (3):

...

(2) the *scheme property* being realised or distributed in accordance with COLL 7.4A.6R(5) which should include appropriate resolution of unattributed sums in any *issue and cancellation account*; and

...

...

## 7.6 Schemes of arrangement

...

Schemes of arrangement: requirements

7.6.2 R ...

(7) ...

(8) *Scheme property* in the form of any unattributed sums in an *issue and cancellation account* should not form part of any *scheme of arrangement* under this rule.

...

## 8 Qualified investor schemes

### 8.1 Introduction

Application

8.1.1 R ...

(2) ...

- (3) In this chapter, references to the value of *scheme property* or the value of the fund mean the net value determined in accordance with COLL 8.5.9R (Valuation, pricing and dealing).

...

## 8.4 Investment and borrowing powers

...

General power to borrow

8.4.10 R ...

8.4.10A G When calculating an *authorised fund*'s borrowing for COLL 8.4.10R(2), the *authorised fund manager* should ensure that any borrowing in an *issue and cancellation account* is attributed to a *scheme* or *sub-fund* but any sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the value of the *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

## 8.5 Powers and responsibilities

...

Valuation, pricing and dealing

8.5.9 R (1) The value of the *scheme property* is the net value of the *scheme property* after deducting any outstanding borrowings (including any capital outstanding on a mortgage of an immovable).

...

(11) ...

(12) For the purposes of (1), sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the valuation of *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

Issues and cancellations of units

8.5.10 R ...

(2) ...



- (3) The *authorised fund manager* must ~~arrange~~ ensure adequate arrangements are in place for the *issue and cancellation of units* and ~~pay payment of~~ money or assets to or from the *scheme*, *depository*, or where relevant, *unitholders* for the account of the *scheme* as required by the *prospectus*, and, where applicable, in accordance with the *Money Market Funds Regulation*.

...

- (6) ...

- (7) *COLL 6.2.7AR* (Issue and cancellation of units by a direct dealing scheme) and *COLL 6.2.7BR* (Operation of an issue and cancellation account), and the *guidance* in *COLL 6.2.7CG* and *COLL 6.2.7DG* apply to a *qualified investor scheme* that is a *direct dealing scheme*.

...

#### Transfer of units in an ACS

...

- 8.5.10C G The *FCA* recognises that some transfers of *units* arise by operation of law (such as upon death or bankruptcy of the *unitholder*, or otherwise) and are accordingly outside the control of the *authorised contractual scheme manager*. The *authorised contractual scheme manager* is expected to comply with its responsibilities under *COLL 8.5.10ER* (Redemption of ACS units in a QIS by an authorised contractual scheme manager) in those cases by redeeming, or arranging for the *cancellation of*, those *units*.

...

#### Redemption of ACS units in a QIS by an authorised contractual scheme manager

- 8.5.10E R The *authorised contractual scheme manager* of a *qualified investor scheme* which is an *ACS* must redeem, or arrange for the *cancellation of*, *units* in the *scheme* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of subscription or transfer of *units*) other than a *person* meeting the criteria in *COLL 8 Annex 2(1)* and *(2)* (ACS Qualified Investor Schemes: eligible investors).

#### Sale and redemption

- 8.5.11 R (-1) Paragraphs (1), (2) and (3) of this *rule* do not apply in relation to a *direct dealing scheme*.

- (1) ...

- (1A) The *authorised fund manager* of a *direct dealing scheme* must ensure that, at all times during the *dealing day*, the *issue of units* in the *authorised fund* is effected at the request of an eligible investor (within

any conditions in the instrument constituting the fund and the prospectus which must be fair and reasonable as between all unitholders and potential unitholders) for whom the authorised fund manager does not have reasonable grounds to refuse such sale.

(2) ...

(2A) The authorised fund manager of a direct dealing scheme must ensure that, at all times during the dealing day, the cancellation of units owned by any eligible unitholder in the authorised fund is effected at the request of that unitholder (within any conditions in the instrument constituting the fund and the prospectus), unless the authorised fund manager has reasonable grounds to refuse such cancellation.

(3) ...

(3A) On agreeing to a cancellation of units within (2A), the authorised fund manager must ensure that the unitholder is paid the appropriate proceeds of the cancellation within any reasonable period specified in the instrument constituting the fund or the prospectus, unless it has reasonable grounds for withholding payment.

(4) Payment of proceeds on redemption must be made ~~by the authorised fund manager~~ in any manner provided for in the prospectus which must be fair and reasonable as between redeeming unitholders and continuing unitholders.

...

## 15 Long-term asset funds

...

### 15.2 Eligibility to act as the authorised fund manager

...

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

15.2.6 R ...

(5) The authorised fund manager need not appoint an external valuer under (1) if:

- (a) the *scheme property* of the long-term asset fund is constituted solely of *units* or *shares* in other *collective investment schemes* or *AIFs*, excluding cash and other liquid assets used for non-investment purposes such as unit dealing; and
- (b) an *external valuer* performs the valuation function of each such *collective investment scheme* or *AIF*.

...

...

### 15.3 Constitution

...

Table: contents of the instrument constituting the fund

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

...				
3	Constitution			
	The following statements:			
	...			
	(9)	for an <i>ACS</i> :		
		(a)	the <i>contractual scheme deed</i> :	
			...	
			(v)	states that the <i>authorised contractual scheme manager</i> of an <i>ACS</i> must <i>redeem or arrange for the cancellation of units</i> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i> ) other than a <i>person</i> meeting the criteria in (iv)(A) and (B);
			...	
		...		
...				

...

### 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>13</b>	<b>Valuation of scheme property and due diligence</b>		
	...		
	(2)	A description of the valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing hard-to-value assets, in line with <i>FUND</i> 3.9 (Valuation), and details as to:	
		(a)	how frequently and at what times of the <i>day</i> the <i>scheme property</i> will be regularly valued to determine the <i>price</i> at which <i>units</i> in the <i>scheme</i> may be <del>purchased from or redeemed by the authorised fund manager</del> <u>dealt</u> and a description of any circumstance where the <i>scheme property</i> may be specially valued;
		...	
	...		
...			
<b>16</b>	<b>Dealing</b>		
	The procedure and conditions for the <i>issue</i> , <i>sale</i> , <i>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:		
	(1)	the <i>dealing days</i> and times in the <i>dealing day</i> on which the <i>authorised fund manager</i> will receive and determine requests for the <i>sale</i> , <i>issue</i> , <i>cancellation</i> and <i>redemption</i> of <i>units</i> , including any cut-off point for receiving <i>redemption</i> <u>or</u> <i>cancellation</i> requests before the <i>authorised fund manager</i> makes the next <i>redemption determination</i> (see <i>COLL</i> 15.8.12R(2)(a) (Dealing: redemption of units));	
	(2)	the procedures for effecting the <i>issue</i> and <i>cancellation</i> of <i>units</i> and <u>settlement of transactions involving unitholders</u> ;	
	...		
	(4)	the steps required to be taken by a <i>unitholder</i> <del>in redeeming for</del> <i>units</i> in the <i>long-term asset fund</i> <u>to be redeemed or cancelled</u> (see <i>COLL</i> 15.8.12R (Dealing: redemption of units)), using worked examples to explain how these arrangements may affect <i>unitholders</i> in the <i>scheme</i> , including:	

		...
	...	
<b>17</b>	<b>Issue of units in ACSs: eligible investors</b>	
	...	
	(2)	A statement that the <i>authorised contractual scheme manager</i> of an <i>ACS</i> must <i>redeem or arrange for the cancellation of units</i> as soon as practicable after becoming aware that those <i>units</i> are vested in anyone (whether as a result of subscription or transfer of <i>units</i> ) other than a <i>person</i> meeting the criteria in (1).
	...	
...		

...

## 15.6 Investment and borrowing powers

### Application

...

15.6.2 R ...

(2) ...

(3) Where this section refers to value of *scheme property*, *scheme property* is to be valued in accordance with COLL 15.8.2R.

15.6.2A G One of the effects of COLL 5.2.5R(1) is that, for the purposes of this chapter, sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the valuation of *scheme property* of any *sub-fund* or *scheme* (as applicable) (see COLL 15.8.2R(11) (Valuation, pricing and dealing)).

...

### General power to borrow

15.6.17 R ...

15.6.17A G When calculating an *authorised fund's* borrowing for COLL 15.6.17R(2), the *authorised fund manager* should ensure that any borrowing in an *issue and cancellation account* is attributed to a *scheme* or *sub-fund* but any sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded

from the value of the *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

#### Investment limits for immovables

- 15.6.21 R The following limits apply in respect of immovables held as part of the *scheme property*:

...

- (3) the total of all premiums paid for options to purchase immovables must not exceed 10% of the ~~*scheme*~~ value of the *scheme property* in any 12-month period, calculated at the date of the granting of the option.

...

### 15.8 Valuation, pricing, dealing and income

...

#### Valuation, pricing and dealing

- 15.8.2 R ...

- (10) ...

- (11) For the purposes of (1), sums in an *issue and cancellation account* which the *authorised fund manager* reasonably believes are not attributable to a particular *sub-fund* or *scheme* are excluded from the valuation of *scheme property* of any *sub-fund* or *scheme* (as applicable).

...

#### Issue and cancellation of units

- 15.8.5 R ...

- (3) The *authorised fund manager* must ~~arrange~~ ensure adequate arrangements are in place for the *issue and cancellation of units* and ~~pay for the payment of~~ money or assets to or from the *scheme, depositary or where relevant, unitholders*, for the account of the *scheme* as required by the *prospectus*.

...

- (5) ~~The~~ Except in respect of a *direct dealing scheme*, the *authorised fund manager* may arrange for the *ICVC*, or instruct the depositary of the *AUT* or *ACS*, to issue or cancel units where the *authorised fund*

*manager* would otherwise be obliged to *sell* or *redeem* the units in the manner set out in the *prospectus*.

(6) ...

(7) *COLL 6.2.7AR* (Issue and cancellation of units by a direct dealing scheme) and *COLL 6.2.7BR* (Operation of an issue and cancellation account), and the guidance in *COLL 6.2.7CG* and *COLL 6.2.7DG* apply to a long-term asset fund that is a direct dealing scheme.

...

#### Transfer of units in an ACS

...

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

...

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

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

...

#### Dealing: redemption of units

15.8.12 R ...

(2) The *redemption* arrangements for a long-term asset fund must ensure the following:

...

(h) The *authorised fund manager* must *redeem* the *units* at the price determined in accordance with (f) and pay the *unitholder*, or arrange for payment to the unitholder of, the appropriate proceeds of *redemption* in accordance with paragraphs (4) and (5).

- (3) Subject to *COBS* 2.1.4R (AIFMs' best interests rule), *COLL* 6.2.7AR(6) (Issue and cancellation of units by a direct dealing scheme) (as applied by *COLL* 15.8.5R) and *COLL* 15.3.2R (Classes of unit), where the *long-term asset fund* has more than one *class* of *unit*, the arrangements for the *redemption* of *units* may differ between *classes* provided the arrangements for all *classes* of *unit* ensure the matters specified in (2).
- (4) After having effected a *redemption* request, the *authorised fund manager* must pay or arrange payment of the full proceeds of the *redemption* to the *unitholder* within any reasonable period specified in the *prospectus*, unless it has reasonable grounds for withholding payment.
- (5) Payment of proceeds on *redemption* must be made, or arranged, by the *authorised fund manager* in any manner provided for in the *prospectus* which must be fair and reasonable as between *redeeming unitholders* and continuing *unitholders*.

...

...

## TP 1 Transitional Provisions

(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
...					
66	...	...	...	...	...
<b><u>Amendments made by the Collective Investment Schemes (Direct to Fund) Instrument 2025</u></b>					
67	The deletion of <u><i>COLL</i> 5.6.7AG(3)</u> and <u><i>COLL</i> 5.7.6G(3)</u>	<u>G</u>	The deletion of the <u>guidance specified in column (2)</u> may be disregarded.	[ <i>Editor's note</i> : insert the date on which this instrument comes into force until 12 months afterwards]	[ <i>Editor's note</i> : insert the date on which this instrument comes into force]



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