FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP26/21**

Proposed changes to the UK Listing Rules for closed-ended investment funds

June 2026

How to respond

We are asking for comments on this Consultation Paper (CP) by **14 August 2026**.

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

Or in writing to:

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Chapter 1

Executive Summary

1.1 Closed-ended investment funds, commonly referred to in the UK market as investment trusts, are a long-standing part of the market, with a history of more than 150 years.

1.2 These vehicles are both companies and investment products and are owned by their shareholder. These shareholders have the right to exercise certain controls over investment funds, based on the principle of one share, one vote. Those rights are enshrined in the law, rather than in our rules.

1.3 Shareholders of closed-ended investment funds appoint boards to govern the fund. Although the board does not make daily investment decisions, it is responsible for appointing and monitoring the investment manager that generates returns by executing the investment strategy. The majority of closed-ended investment funds appoint an external manager, but some manage the fund internally. The board also negotiates the management fees paid to the fund manager, ensures that the fund manager adheres to the investment mandate and has a responsibility to represent all shareholders.

1.4 The FCA's predecessor first introduced a dedicated listing category specifically for closed-ended investment funds in 2007 to address their unique organisational structure. The category was retained when the new UK Listing Rules (UKLR) sourcebook came into force in 29 July 2024.

1.5 The UKLRs set out a number of requirements that closed-ended investment funds must comply with. As well as investing and managing assets with the primary objective of spreading investment risk and adhering to published investment policies, the board must be able to act independently of the investment manager. This is to manage conflicts of interest.

1.6 On 3 March 2026, we announced that we were bringing forward a targeted review of the UKLRs for investment entities, that would, amongst other things, allow us to assess how our rules ensure boards support strong shareholder rights and manage conflicts of interests.

1.7 We have taken a deliberately forward-looking stance when conducting our review and spent considerable time reflecting on how market conditions may evolve over time and whether aspects of our regime could be improved to guard against potential future harm arising from conflicts of interest. This has involved testing how our rules would stand up in circumstances that, while not yet encountered in the market, could feasibly arise in the future.

1.8 Through this process, we have identified certain areas where making targeted adjustments now would ensure that our rules remain robust across future scenarios. The changes we are consulting on are designed to address these by:

- Bringing proposed investment managers within the scope of the UKLR 11 relevant related party provisions. The proposal seeks to ensure that there are consistent protections for all changes to investment manager fees.
- Ensuring that the association between a director and a substantial shareholder that proposed them for a board appointment is adequately accounted for in the UKLRs in order to strengthen the integrity of a board being able to act independently of any investment manager.
- Where a substantial shareholder is also an investment manager of the closed-ended investment fund, recognising the conflict arising by preventing the substantial shareholder from voting in material changes to the investment policy.

1.9 Activist investors play an important role by encouraging companies with poor management or underperforming strategies to improve, and we want to ensure healthy market behaviour can continue for the benefit of all shareholders.

1.10 That is why, when drafting these proposals, we have carefully considered the impact any changes may have in relation to impeding legitimate shareholder activism and diluting accountability. We intend any reform to be as limited as possible in protecting minority interests in niche hypothetical scenarios, without impacting broader shareholder activity. We welcome feedback on whether our proposals achieve the right balance.

1.11 Alongside this consultation, we are also publishing guidance on good practice to support retail investors in exercising their voting rights, as part of our broader work to promote effective shareholder engagement.

Measuring success

1.12 We want our rules to operate robustly and consistently in scenarios that may not have been expressly considered when we introduced the current provisions. This includes the appointment of a substantial shareholder as investment manager, which may raise conflicts of interest. We do not want to impair activism and shareholders' ability to challenge and hold boards to account.

1.13 We expect to measure the impact of any final rule changes against the intended outcomes. This could include monitoring compliance and gathering market feedback.

Next steps

1.14 We welcome responses by 14 August 2026. You can use the form on our website or email cp26-21@fca.org.uk. You can also send requests to engage with us to the above inbox.

1.15 We aim to finalise our rules and publish our policy statement before the end of the year. We will also consider what consequential changes we may need to make to our Technical Notes.

1.16 As part of the announcement we made on 3 March 2026 we explained that we are also exploring which types of investment entities should be eligible to list in the UK. Specifically, if the requirement for listed closed-ended investment funds to manage their assets in a way that aligns with the objective of spreading investment risk is proportionate. This work is ongoing. We will publish our timeline for taking it forward later this year.

Chapter 2

The wider context

Overview of legislative landscape and background

UK Listing Rules

2.1 Under the UKLRs, closed-ended investment funds are defined as undertakings whose primary object is investing and managing its assets with a view to spreading investment risk. Closed-ended investment funds are distinct from open-ended funds (such as open-ended investment companies and unit trusts) because:

- Investors do not have a right to redeem their shares making them well suited to holding illiquid assets without the risk of forced sales
- Their share prices are driven by market demand as well as the value of the underlying assets, which means their shares can be traded at a discount (less than the underlying assets are worth) or a premium (more than the underlying assets are worth)
- They can borrow money to 'gear' returns, and
- They have boards that must be able to act independently of any appointed investment manager, and may seek changes to the investment manager or investment mandate where considered in shareholders' interests.

2.2 UKLR 11 sets out rules that closed-ended investment funds must follow to be eligible for listing as well as continuing obligations. These include, but are not limited to, three provisions that are designed to ensure conflicts of interests between shareholders and a closed-ended investment fund's board and investment manager are managed appropriately.

2.3 The first of these three provisions is a rule that requires boards to be able to act independently of any investment manager. This is important because where a closed-ended investment fund delegates investment management to an external investment manager, shareholders rely on the board to oversee that investment manager and to manage the relationship in the interests of all shareholders.

2.4 The second is a requirement for closed-ended investment funds entering into transactions with related parties to obtain board approval and, importantly, secure written confirmation from an FCA-approved sponsor that the terms are fair and reasonable to all shareholders. This requirement is designed to prevent a related party from taking advantage of its position and to prevent any perception that it may be doing so, in order to protect investors. For the purposes of the UKLR 11, a related party also includes an investment manager in addition to a broader set of persons, including a substantial shareholder (who holds ≥20% voting rights), persons exercising significant influence, directors or shadow directors and any of their associates.

2.5 Related party transactions are essentially defined as transactions or arrangements between a listed company and its related parties that are not in the ordinary course of business. They include sales, purchases, financing, and joint ventures. A transaction is classified by assessing its size relative to that of the listed company that is proposing to make it. The comparison of size is made using the percentage ratio from applying the appropriate class test calculation (specified in UKLR 7 Annex 1) to the related party transaction being undertaken. The result of the calculation determines the appropriate treatment of the transaction under the UKLRs.

2.6 The obligations outlined in paragraph 2.4 are set out in UKLR 8. They apply to transactions with a percentage ratio of 5% or more. For related party transactions that relate to fees or other remuneration payable in connection with services rendered by an investment manager or a member of the investment manager's group (a relevant related party transaction), these obligations apply at a lower threshold, where the percentage ratio is greater than 0.25%. If a relevant related party transaction has a percentage ratio of 5% or more, shareholders are also required to approve the transaction. The related party and its associates do not get to take part in the shareholder vote. The relevant related party transaction rules are set out in UKLR 11.5.

2.7 The third provision is a requirement for a material change to a published investment policy to be approved by the FCA and shareholders. This rule was introduced to ensure that a listed closed-ended investment fund cannot materially change its investment strategy without both regulatory scrutiny and the consent of shareholders.

2.8 This has the effect of protecting shareholders from unanticipated changes to the nature and risk profile of their investment and also may help mitigate conflicts by preventing an investment manager and a board from reshaping the mandate without investor consent.

The Companies Act

2.9 The rules set out above sit alongside the Companies Act 2006 ('the Act'), overseen by the Department for Business and Trade (DBT) and which includes directors' fiduciary duties and rules governing company meetings and shareholder rights. The fiduciary duties include the need for directors (including directors of UK incorporated closed-ended investment funds) to exercise independent judgment, avoid conflicts of interest, not accept benefits from third parties and have regard to the need to act fairly between all shareholders of the company. The Act's provisions covering company meetings and shareholder-requisitioned votes include the power for companies to block or refuse shareholder requisitions if they are frivolous or vexatious.

2.10 Companies can also design voting arrangements through their articles of association, if enough shareholders agree.

2.11 This consultation does not cover the requirements in the Act set out in paragraphs 2.9 and 2.10.

Digitisation Task Force

2.12 We recognise that investors holding shares via platforms are typically not the legal shareholder and so typically do not have an automatic right to vote, although many platforms routinely enable the investor to vote. We, DBT and His Majesty's Treasury (HMT) are working alongside the Dematerialisation Market Action Task Force to take forward the Digitisation Task Force Report's recommendations to facilitate the ability of beneficial owners of shares to exercise their rights effectively and efficiently through intermediaries. The recommendations include arrangements for intermediaries to:

- **a.** Provide information on the identity of beneficial owners to issuers
- **b.** Transmit company information from the issuer to beneficial owners to enable them to exercise their rights
- **c.** Transmit information from beneficial owners exercising their rights to issuers, and
- **d.** Facilitate the exercising of rights by beneficial owners such as the right to participate in meetings and to vote

2.13 Work will begin from Q3 2026 on considering how to take forward the recommendations. These improvements will be made over the course of this Parliament.

UK Corporate Governance Code

2.14 Similarly, the Principles and provisions relating to board independence and conflicts of interest in the UK Corporate Governance Code (the Code), are not covered in this consultation.

2.15 The Financial Reporting Council (FRC) is responsible for promoting confidence in corporate governance and reporting, and for keeping the Code under review.

2.16 Under our UKLRs, we require annual disclosure against the Code by all companies with a listing in the commercial companies category or the closed-ended investment funds category. Companies must state how they have applied the Principles of the Code, and whether they have complied with the provisions in the Code and explain if they have not.

2.17 Closed-ended investment funds disclose against either the Code or the current Association of Investment Companies (AIC) Code. The AIC Code, which is endorsed by FRC, differs from the Code in places as some elements of the Code may not be relevant to investment funds due to their different organisational structures.

Recent developments

2.18 Shareholder activism plays an important role in UK markets. It enables shareholders to hold boards to account and push for improvements to performance by addressing issues like high management fees and poor total returns, as well as governance issues such as persistent share price discounts (when closed-ended investment funds trade at a wide discount between the share price and the net asset value (NAV) of the underlying investments). They may do this by drafting resolutions to be voted on at general meetings, replacing board members and through other corporate actions.

2.19 In the last two years there has been an increase in activist investment in UK investment trusts.

2.20 The average investment trust discount to NAV in the UK narrowed from around 15% in 2024 to around to around 9.6% at the end of April in 2026, based on Association of Investment Companies data. Some commentators have suggested that pressure from activists has been one of the drivers behind the change. However, there are a number of other factors that have played a role, such as renewed investor appetite for closed-ended assets due to macroeconomic trends. For example, lower interest rates during the last two years have resulted in lower returns on traditional savings which has caused some investors to turn to closed-ended investment funds which historically provide steady distribution yields.

The harm we are trying to prevent

2.21 Since we announced this review on 3 March, we have been exploring how our rules work in a number of scenarios to ensure conflicts of interest are addressed consistently in our rules and shareholders are appropriately protected, including where a significant shareholder is also appointed as an investment manager.

2.22 We have identified three changes that we believe would strengthen our current rules and ensure they work effectively in scenarios that may occur in the future, without impeding legitimate shareholder activism and diluting accountability which is integral to effective corporate governance. These include:

- Bringing proposed investment managers within the scope of the UKLR relevant related party provisions in UKLR 11. These currently apply to incumbent investment managers and seek to prevent a related party from taking advantage of its position and to prevent any perception that it may have done so. The proposal seeks to ensure that there are consistent protections for all changes to investment manager fees
- Ensuring that the association between a director and a substantial shareholder that proposed them for a board appointment is adequately accounted for in the UKLRs in order to strengthen the integrity of a board being able to act independently of any investment manager, and
- Where a substantial shareholder is also an investment manager of the closed-ended investment fund, recognising the conflict arising by preventing the substantial shareholder from voting in material changes to the investment policy.

2.23 Our proposals seek to clarify and strengthen our current rules and reduce the risk of potential harm arising, particularly for smaller investors, such as:

- Financial costs from unfair management fees
- Altering the risk profile of the fund, without a due process to consider the interests of smaller investors
- Forcing smaller investors to prematurely exit, potentially incurring losses or tax costs

Supervisory approach

2.24 The FCA's Market Oversight directorate will continue to oversee our markets and provide a robust supervisory and enforcement environment to promote market integrity. This includes:

- reviewing and approving material changes to investment policies proposed by closed-ended investment funds
- monitoring the conduct of listed closed-ended investment funds to promote the transparency upon which trusted markets depend, and
- supervision of sponsor firms around their confirmations that the terms of related party transactions and relevant related party transactions in respect of closed-ended investment funds are fair and reasonable

How it links to our objectives

Consumer protection

2.25 Our proposals are designed to ensure that the governance framework for closed-ended investment funds supports decisions being taken in the best interest of shareholders as a whole, particularly where a substantial shareholder is appointed as investment manager. When conflicts of interest are not managed properly, they can lead to poor outcomes and harm to consumers. We want to ensure they are managed effectively.

Market integrity

2.26 The changes we are consulting on are intended to increase transparency about how closed-ended investment funds are governed, without impairing legitimate activism and the ability of shareholders to hold the board to account. This should increase broader investor confidence in the UK listed markets and the reputation of UK listing.

Wider effects of this consultation

2.27 The proposals in this consultation are focused on very targeted changes to UKLR conflicts of interest and related party provisions outlined in paragraph 2.22 above that would apply to listed closed-ended investment funds. Subject to feedback on the consultation we are seeking to make final rules before the end of the year to give certainty.

Environmental, social & governance considerations

2.28 In developing this Consultation Paper, we have considered the environmental, social and governance implications of our proposals and our duty under ss. 1B(5) and s.3B(1)(c) of 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. Overall, we do not consider that the proposals are relevant to contributing to

those targets. We will keep this issue under review during the course of the consultation period and when considering whether to make the final rules.

2.29 In the meantime, we welcome your input to this consultation on this.

Equality and diversity considerations

2.30 We have considered the equality and diversity issues that may arise from the proposals in this consultation paper. Overall, we do not consider that the 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). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.31 In the meantime, we welcome your input to this consultation on this.

Chapter 3

Amendments to the UK Listing Rules regarding closed-ended investment funds

3.1 This chapter sets out our proposed changes to the UKLR 11 rules regarding independence of the board from any investment manager, related party transactions and approval of material changes to an investment policy.

Board independence and director responsibilities

Current rules

3.2 As outlined in Chapter 2, the current rules that apply to listed closed-ended investment funds under UKLR 11, at the point of listing and as continuing obligations, require the board to be able to act independently of any investment manager (UKLR 11.2.10R and UKLR 11.4.12R).

3.3 For the purposes of this requirement:

- The chair of the board must be independent, and a majority (including the chair) of the board must be independent of any investment manager (UKLR 11.2.12R)
- The following are not independent of the investment manager (see UKLR 11.2.13R for full details):

  i. Directors, employees, partners, officers or professional advisers of or to the investment manager or any other company in the same group as the investment manager.

  ii. Directors, employees or professional advisers of or to other investment companies or funds that are managed by the fund's investment manager or managed by any other company in the same group as the investment manager.

3.4 The rules focus on the existing investment manager, but we believe it would be beneficial to clarify how we expect them to apply when a fund decides to appoint a new investment manager.

3.5 We also think it would be beneficial to recognise the association, and potential for conflicts of interest that may arise, between a director of the board and a substantial shareholder who has proposed that director for appointment.

Strengthening board independence provisions

3.6 We propose a new rule to clarify a closed-ended investment fund's obligations when entering into a transaction or arrangement to appoint a new investment manager. We

refer to the new investment manager as the proposed investment manager in this consultation. This is to reflect that this is about the new entity that will become or will be appointed as the investment manager, rather than amending or renewing an existing arrangement with the incumbent investment manager.

3.7 The proposed rule would require closed-ended investment funds to ensure that any director who is not independent of the proposed investment manager does not participate in the board's consideration of the transaction or arrangement for the appointment of the new investment manager. This would include not voting on the board resolution. We also propose changes to the definition of 'associate' so that it applies to a proposed investment manager.

3.8 A director would not be independent of the proposed investment manager if they:

- were appointed as director after being proposed for appointment to the board by the proposed investment manager or its associates, regardless of whether they are a substantial shareholder, and/or
- fall within the proposed criteria based on the criteria set out under UKLR 11.2.13R (see paragraph 3.3). By this we mean references to the 'investment manager' in this rule should also be read as applying to the 'proposed investment manager'.

3.9 We consider this would complement and strengthen the existing requirements for a closed-ended investment fund's board to be able to act independently of its investment manager.

3.10 Scenarios may arise where a closed-ended investment fund that would be required to comply with this proposed rule, may also fall within the scope of the relevant related party transaction rules under our wider proposals. Where this is the case the intention is that the closed-ended investment fund would need to meet their obligations under both sets of the proposed requirements.

Question 1: **Do you agree that we should not treat a director as independent of a proposed investment manager if they:**

- **Were appointed as director after being proposed for appointment to the board of directors by the proposed investment manager or its associate; and/or**
- **Meet any of the descriptions of persons not being independent, based on the criteria under UKLR 11.2.13R?**

If not, please explain why. Please also provide any other examples of non-independence that we should consider.

Question 2: **Do you agree that any director that is not independent (as defined in Q1, above) of the proposed investment manager should not take part in the board's consideration of the transaction or arrangement appointing the investment manager? If not, please explain why.**

Recognising the association between a director and a substantial shareholder that proposed them for appointment

3.11 To strengthen the relevant related party transaction rules, we consider it would be beneficial to acknowledge the ongoing association between a director and a shareholder that proposed them for appointment within the context of the related party and relevant related party rules. This is most significant in situations where the shareholder, or its associates, that proposed them for appointment is a substantial shareholder.

3.12 We propose amending the FCA Handbook Glossary definition of an 'associate', for its application in the UKLRs only. This change would also only be in relation to closed-ended investment funds, given the targeted nature of our proposals. The aim is to ensure that the association between a director and any substantial shareholder, or its associates, that has proposed them for appointment is included within the definition.

3.13 The definition of an 'associate' is important because it is included within the definition of a related party in our rules. An associate (for example, members of the individual's family) of a related party is also a related party under our rules.

3.14 The change would mean that directors whose associate is the related party could not participate in the board's consideration of any transaction that met the existing related party transaction or relevant related party transaction thresholds (see paragraph 2.4). This restriction would apply to any board vote concerning transactions with the substantial shareholder who proposed them for appointment. For example, they would not be able to participate in the board's consideration of the transaction, or be able to participate in the board process that leads to the fair and reasonable statement given by the board as required under our rules, or be allowed to vote.

3.15 Unlike the proposal in paragraph 3.6 above, this requirement is ongoing. It would continue to recognise the association between the director and the substantial shareholder, or its associates, that proposed them, for as long as they retain their positions.

Question 3: **Do you agree that any director of a closed-ended investment fund appointed after being proposed for appointment by a substantial shareholder, or its associates, should be considered as not independent of that substantial shareholder, or its associates? Do you agree that the director should not participate in votes on a related party transaction or relevant related party transaction with that substantial shareholder, or its associates? If not, please explain why.**

Question 4: **Are there unintended consequences that we have not identified. For example, would it materially impede the appointment of directors? If so, could such a risk be mitigated by applying a time limit of, for example 2 years?**

Question 5: **Do you agree that this requirement should focus on substantial shareholders, rather than shareholders with votes of less than 20%? If not, please explain why similar protections would be required in this scenario?**

Question 6: **If you agree to Q3, do you also agree that the proposed amendment to the definition of 'associate' in the Glossary helps to achieve this? If not, please explain why or provide an alternative suggestion.**

Appointing an investment manager

Current rules

3.16 Our existing requirements for related party transactions seek to prevent a related party from taking advantage of its position and prevent any perception that it may have done so. They are intended to address the potential harm and loss of value to the company and its shareholders that can arise from conflicts of interest.

3.17 Investment managers are treated as related parties in the UKLR 11 regime (see UKLR 11.5.3R). This is because, where an external investment manager has been appointed, that manager occupies a central and potentially influential position in relation to the listed issuer, and have a direct financial interest in the terms of their remuneration. In that context, transactions or arrangements with the investment manager can lead to conflicts of interest for which the protections in UKLR 8 and UKLR 11 are applicable.

3.18 Currently, for transactions or arrangements with a related party where any percentage ratio is at least 5%, issuers must:

- Obtain the approval of its board for the transaction or arrangement, while ensuring any director who is, or an associate of whom is, the related party, or who is a director of the related party, is excluded from the board's consideration of the transaction and does not vote on the relevant board resolution.
- Obtain a written confirmation from a sponsor that the terms of the transaction or arrangement are fair and reasonable so far as holders of securities in the issuer are concerned and disclose that the directors have been so advised.
- Notify the market about the transaction.

3.19 In addition to related party transactions, our rules for closed-ended investment funds also include relevant related party transactions (see UKLR 11.5.4R to UKLR 11.5.6R). Relevant related party transactions are related party transactions relating to fees or other remuneration payable by a closed-ended investment fund in connection with services rendered by an investment manager or a member of the investment manager's group. The requirements set out in paragraph 3.18 apply at a lower percentage ratio of greater than 0.25%. For transactions with a percentage ratio of at least 5% a

shareholder approval requirement also applies in which the related party and any of its associates must not vote (UKLR 11.5.5R).

3.20 Currently, the definition of a related party covers the incumbent investment manager but does not extend to a proposed investment manager. This creates a situation where, during the appointment of a new investment manager, the arrangement may fall out of scope of the relevant related party transaction rules that are designed to safeguard against an investment manager leveraging their position to secure fee structures that may not be fair and reasonable. Where they are a related party for another reason, the transaction would be within scope of the related party transaction rules but the 5% class test threshold, which triggers a sponsor fair and reasonable confirmation, is set at a level that exceeds the value of most typical fee arrangements.

3.21 To ensure fee negotiations have the intended oversight, we consider it would be beneficial if the protections concerning conflicts of interests when an incumbent investment manager's fees are being revised also clearly apply to situations when a new investment manager is being appointed. This would better ensure fair and reasonable determination of fees, and uphold the principle of protecting stakeholders from conflicts of interest.

Including a proposed investment manager in the definition of a related party

3.22 We propose to amend the definition of a related party, and the definition of a relevant related party transaction, to specifically include a proposed investment manager (which has been defined as a person who would become the investment manager under a transaction or arrangement the closed-ended investment funds is proposing to enter into). The intention is for the relevant related party transaction rules to apply when a closed-ended investment fund enters into an agreement to appoint a new investment manager. This is regardless of whether the proposed investment manager is or is not otherwise a related party.

3.23 Our aim is to make sure protections around the size of investment manager fees apply consistently before and after appointment.

3.24 Under our proposal, if arrangements between a closed-ended investment fund and a proposed investment manager trigger a percentage ratio greater than 0.25%, they would require a market announcement, sponsor fair and reasonable confirmation, and board approval (excluding directors the associate of whom is the related party).

3.25 Our CBA assumption is that this could bring approximately 2 additional relevant related party transactions into scope per year (see cost benefit analysis for more details).

3.26 For arrangements with a percentage ratio of 5% or more, or uncapped, our proposal would also require shareholder approval in which the related party and any associates must not vote. Given the limited instances of fees that are not subject to any maximum or which are greater than 5%, we consider it unlikely that many of the estimated 2 new investment manager appointments would meet that threshold.

3.27 The application of the class tests to an arrangement with a proposed investment manager is not currently provided for under FCA Primary Market Technical Note 403.3 (Class testing changes to an investment management agreement). Boards will choose to structure fees for a proposed investment manager in a way that they consider best for shareholders. This may mean that a fee structure for a proposed investment manager would be different to the fee structure for an incumbent investment manager. In such cases, it is likely to be challenging to compare the existing fee arrangements with the proposed new fee arrangements and therefore we would expect that the entire fee to the proposed investment manager be class tested.

3.28 However, where the new fee structure is comparable between the two (ie, the proposed and incumbent investment manager) and therefore any variation to the detriment of the closed-ended investment fund can be clearly calculated, we propose that only such variation in fee would be subject to the class tests. We will consider further whether the Technical Note 403.3 should also be updated.

3.29 In relation to the related party transaction rules, there would be no impact, because arrangements with a proposed investment manager that meet a percentage ratio of 5% or more (or which is uncapped), would already be subject to the relevant related party rules above.

3.30 Transactions involving a proposed investment manager or group members that are not related to their fees or remuneration in connection with services to be rendered by them as investment manager or by a group member, are not within the scope of this proposal.

3.31 This proposal would operate independently of the proposal to strengthen our board independence provisions (at paragraph 3.6), and there may be some partial overlap between the two in practice in some cases. Where this is the case, a closed-ended investment fund would need to meet their obligations under both sets of the proposed requirements.

Question 7: **Do you agree that a proposed investment manager should be treated as a related party to ensure protections arounds its fees are consistent before and after the appointment? If not please explain why.**

Question 8: **Are there unintended consequences that we have not identified, that we should take into account? If so, please explain what they are.**

Material changes to an investment policy

Current rules

3.32 The current UKLR 11 rules require a closed-ended investment fund to submit any proposed material change to its published investment policy to the FCA for approval. Once we have approved, the prior approval of shareholders is also required (UKLR

11.4.14R). The current rule does not restrict any party from exercising their voting rights. There are exemptions for requiring FCA approval if the changes proposed are to enable the winding-up of the closed-ended investment fund in accordance with its constitution (UKLR 11.4.15R).

3.33 In a scenario where a substantial shareholder is also the investment manager of the closed-ended investment fund, the risk of influence over the board of the closed-ended investment fund could be increased or perceived to be increased. The investment manager would also have a significant vote on any proposed material change to the investment policy. They could potentially influence and support a change that is not supported by the majority of other shareholders.

3.34 We would like to explore this, as there is a risk as well as a perception that the related party in this scenario has a conflict of interest and could take advantage of its position.

Requiring independent shareholder votes in certain circumstances

3.35 We propose that a substantial shareholder who is also the investment manager of a closed-ended investment fund, and any of its associates, be excluded from voting on a material change to an investment policy. In a scenario where an associate of a substantial shareholder is the investment manager, we propose that the substantial shareholder only be excluded from voting on a material change to the investment policy. The intention is to help secure an appropriate degree of protection for shareholders in the instance that a substantial shareholder which is also an investment manager seeks to or is perceived as seeking to amend the investment mandate for its own advantage without wider consideration of other shareholders.

3.36 We recognise that this means an investment manager which then becomes a substantial shareholder (or vice versa) would not be able to vote to influence the outcome of a proposed material change in investment policy. However, we consider that it could be appropriate to mitigate the conflicts of interests arising from this rare scenario.

3.37 We are interested to hear views on the potential risks of this proposal balanced against the benefits of protecting shareholders from poor outcomes driven by conflicts of interest.

3.38 We have considered alternative options, which could help ensure this proposal is appropriately balanced and targeted. The alternative options are:

- Limiting the proposal to permit voting up to 20% of total voting rights. For example, a substantial shareholder with 25% of total voting rights, that was also the investment manager of the closed-ended investment fund, would be able to vote up to 20% of total voting rights (ie, they could not exercise their vote on 5% of total voting rights). This option would have the benefit of not excluding the substantial shareholder completely from the vote, but adds complexity and may be less effective at protecting minority shareholders.

- Limiting the proposal to cases where a director or directors of the board are not independent of the substantial shareholder that is also the investment manager. This would include those scenarios set out in paragraph 3.8 (ie, where a director had been proposed for appointment to the board by the substantial shareholder that is the investment manager or its associates, or where one of the criteria based on the existing criteria set out under UKLR 11.2.13R is met).
- Apply a double majority approach. Where a substantial shareholder is also the investment manager, this option would require a material change to an investment policy to be approved by both: i) the holders of the listed shares of the closed-ended investment fund; and ii) the independent holders of the listed shares of the closed-ended investment fund. This model for voting requires both a simple majority for all shareholders and a simple majority of votes by the independent shareholders (which would exclude the substantial shareholder, and its associates, that is also the investment manager).

3.39 As well as comments on our main proposal, which is included in the draft rules, we are also seeking views on the alternative options, as an alternative to the proposal in the draft rules. If we decide to implement one of the alternative options, we will not necessarily re-consult on that proposal.

Question 9: **Do you agree that it would be beneficial to address the potential conflicts of interest where a substantial shareholder, or one of its associates, is also a closed-ended investment fund's appointed investment manager? If not, please explain why.**

Question 10: **Do you agree with our proposal to exclude:**

a. A substantial shareholder that is also a closed-ended investment fund's appointed investment manager, and any of its associates, from participating in a shareholder vote on a material change to the fund's published investment policy?

b. A substantial shareholder whose associate is a closed-ended investment fund's appointed investment manager, from participating in a shareholder vote on a material change to the fund's published investment policy?

c. If not, please explain why or suggest alternative approaches.

Question 11: **Do you consider if it would also be beneficial to extend this proposal to address the scenario where a material change is being made to the investment policy at the same time that a new investment manager is being appointed? If so, please explain why.**

Question 12: **Are there any risks or unintended consequences with this proposal that you think we have not identified? If so, please explain what they are.**

Question 13: **What are your views on the alternative options also discussed? If you consider one of these to be a more effective approach, please explain why.**

Transitional arrangements and other minor changes

Transitional arrangements

3.40 Our proposals in this consultation, if finalised, would apply from a specified date. We anticipate the rules would come into force a short period, of about 4 weeks, after we publish the policy statement and final rules. This short implementation period is intended to allow sufficient time for any related party transactions, relevant related party transactions, or material changes to investment policies that are already in process at the time the policy statement is published to complete before the point any new rules come into force.

Question 14: **Do you agree with our proposed approach to implementation? For example, does a 4-week gap between the rules being finalised and coming into force allow enough time to complete any transactions or arrangements under the current rules?**

Question 15: **If not, what are the practical issues that may justify a different approach to implementing any final rules?**

Other minor changes

3.41 We propose to clarify that the reference to 'associates' of a related party (see UKLR 8.1.11R(4)) is also intended to apply to the extension of the related party definition under UKLR 11.5.3R for closed-ended investment funds.

3.42 UKLR 11.5.3R states that for a closed-ended investment fund a related party includes any investment manager and any member of such investment manager's group. We propose to clarify that an associate of an investment manager or any member of such investment manager's group, is also a related party. Under our proposals an associate of an investment manager and a proposed investment manager would also be a related party. We have also updated the definition of an associate to capture the associate of an investment manager and a proposed investment manager.

Question 16: **Do you agree with our proposed clarification to make it clearer that UKLR 8.1.11R(4), regarding 'associates' of related parties, also applies to the extended definition of related parties under UKLR 11.5.3R, regarding a closed-ended investment fund's appointed investment manager? If not please explain why.**

Annex 1

Questions in this paper

Question 1: Do you agree that we should not treat a director as independent of a proposed investment manager if they:

- Were appointed as director after being proposed for appointment to the board of directors by the proposed investment manager or its associate; and/or
- Meet any of the descriptions of persons not being independent, based on the criteria under UKLR 11.2.13R?

If not, please explain why. Please also provide any other examples of non-independence that we should consider.

Question 2: Do you agree that only directors who are independent of the proposed investment manager should take part in the board's consideration of the transaction or arrangement appointing the investment manager? If not, please explain why.

Question 3: Do you agree that any director appointed after being proposed for appointment by a substantial shareholder, or its associates should be considered as not independent of that substantial shareholder, or its associates? Do you agree that the director should not participate in votes on a related party transaction or relevant related party transaction with that substantial shareholder, or its associates? If not, please explain why.

Question 4: Are there unintended consequences that we have not identified. For example, would it materially impede the appointment of directors? If so, could such a risk be mitigated by applying a time limit of, for example 2 years?

Question 5: Do you agree that this requirement should focus on substantial shareholders, rather than shareholders with stakes of less than 20%? If not, please explain why similar protections would be required in this scenario?

Question 6: If you agree to Q3, do you also agree that the proposed amendment to the definition of 'associate' in the Glossary helps to achieve this? If not, please explain why or provide an alternative suggestion.

Question 7: Do you agree that a proposed investment manager should be treated as a related party to ensure protections arounds its fees are consistent before and after the appointment? If not please explain why.

Question 8: Are there unintended consequences that we have not identified that we should take into account? If so, please explain what they are.

Question 9: Do you agree that it would be beneficial to address the potential conflicts of interest where a substantial shareholder, or one of its associates, is also a closed-ended investment fund's appointed investment manager? If not, please explain why.

Question 10: Do you agree with our proposal to exclude:

a. A substantial shareholder that is also a closed-ended investment fund's appointed investment manager, and any of its associates, from participating in a shareholder vote on a material change to the fund's published investment policy?

b. A substantial shareholder whose associate is a closed-ended investment fund's appointed investment manager, from participating in a shareholder vote on a material change to the fund's published investment policy?

c. If not, please explain why or suggest alternative approaches.

Question 11: Do you consider if it would also be beneficial to extend this proposal to address the scenario where a material change is being made to the investment policy at the same time that a new investment manager is being appointed? If so, please explain why.

Question 12: Are there any risks or unintended consequences with this proposal that you think we have not identified? If so, please explain what they are.

Question 13: What are your views on the alternative options also discussed? If you consider one of these to be a more effective approach, please explain why.

Question 14: Do you agree with our proposed approach to implementation? For example, does a 4-week gap between the rules being finalised and coming into force allow enough time to complete any transactions or arrangements under the current rules?

Question 15: If not, what are the practical issues that may justify a different approach to implementing any final rules?

Question 16: Do you agree with our proposed clarification to make it clearer that UKLR 8.1.11R(4), regarding 'associates' of related parties, also applies to the extended definition of related parties under UKLR 11.5.3R, regarding a closed-ended investment fund's appointed investment manager? If not please explain why.

Question 17: Do you have any comments on our Cost Benefit Analysis?

Annex 2

Cost benefit analysis

Executive summary

1. This Cost Benefit Analysis (CBA) assesses proposed amendments to the UK Listing Rules (UKLR) for closed-ended investment funds under UKLR 11. Our proposals aim at addressing specific conflicts of interest and ensuring that the closed-ended investment funds' boards are able to act independently and in the best interests of all their shareholders. The proposals are intended to clarify and strengthen existing rules to reduce the risk of potential harm arising, particularly for smaller shareholders, including through unfair management fee increases, changes in investment strategy, or outcomes that force investors to exit prematurely.

2. The proposals apply to a market comprising 264 closed-ended investment fund issuers, managed by 145 investment manager firms, with total assets under management of £217bn (as at May 2026). Average assets under management per fund were £863m, with a median of £325m.

3. Over a 10-year appraisal period, we estimate the present value cost of the proposals at approximately £4.35m, with a total net direct cost to business of £4.35m and an equivalent annual net direct cost of around £0.5m. The main quantified costs fall on closed-ended investment funds through familiarisation and gap analysis (£0.2m), training for directors (£0.53m) and event-based compliance costs (£3.61m), including sponsor fair and reasonable confirmations and market notifications in a small number of potential cases. While we cannot quantify the benefits because of data limitations, we expect the proposals to be net beneficial by mitigating conflicts of interest and reducing the risk of investor harm.

Introduction

4. The Financial Services and Markets Act (2000) 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'.

5. We are proposing a small number of targeted amendments to the UK Listing Rules sourcebook for closed-ended investment funds under UKLR 11. These aim to address specific conflicts of interests that might arise.

6. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we foresee and reaching a judgement about the appropriate level of regulatory intervention.

The Market

7. Under the UKLRs, closed-ended investment funds are defined as undertakings whose primary object is investing and managing its assets with a view to spreading investment risk. They are governed by boards of directors appointed by shareholders. In Chapter 2 we provide details about the legislative landscape.

8. As of May 2026, there were 264 unique listings (unique issuers) under the closed-ended investment funds category that would fall within the scope of our proposals. The majority of these are managed by 145 investment manager firms, some of which might be part of the same group.

9. These funds had total assets under management (AUM) of £217bn. An average closed-ended investment fund managed £863m, and the median value of AUM was £325m (as at 13/5/2026).

10. 188 of these funds invested only in equity, 13 only in fixed income, 14 only directly in property and 49 in a combination of the these (as at 13/5/2026).

11. Typically, it is mutual funds that hold shares of the closed-ended investment funds in their portfolios.

12. According to market intelligence on a sample of 60 closed-ended investment funds in September 2025, most of these funds are managed by an external investment manager (IM) who does not manage other funds. Only a smaller group of IMs operate multiple funds.

13. Across the sample in paragraph 12, fee levels were clustered in a narrow range, with most funds charging between 0.5% and 1% on a basis which is usually the net asset value (NAV). Fees above 1.5% were concentrated in venture capital and private equity, which is consistent with the resource intensity and illiquidity of those strategies and the tendency for smaller NAVs where fixed costs do not scale in the same way. Less than half of these funds had performance fee mechanism.

14. Finally, market intelligence in May 2026 suggests that approximately 30 of the 264 closed-ended investment funds had an investor which held 20% or more of the voting rights. Most of these would likely be classified as substantial shareholders for the purposes of the related party rules.

Problem and rationale for intervention

Description of harm

15. We consider that there is a risk our current rules may not address scenarios that could arise in the future, which may allow for conflicts of interests and asymmetric information to be exploited (see 'Drivers of harm') to the advantage or benefit of a substantial shareholder and at the expense of smaller shareholders. This may result in:

- Unfair management fee increases.
- Material changes in the investment policy.

16. We expect the harm could take the form of:

- Financial costs from unfair management fee increases where a substantial shareholder is appointed as an IM as well.
- Altering the risk profile or the sector focus of the fund, without a due process to consider the interests of smaller investors.
- Smaller investors are forced to prematurely exit to find a fund better aligned with their preferences, potentially incurring capital losses, tax and transaction costs.

17. We have heard from a range of industry participants, including investment trusts, asset managers and sponsors that it is important that the UKLRs operate in a way that support shareholder action but do so in the best interests of all investors and where conflicts of interest are not exploited.

Drivers of harm

18. Conflicts of interests and asymmetric information drive the harms our proposals seek to prevent, and our view is that the market cannot correct these harms without regulatory intervention.

19. Conflicts of interests might arise when the IM of a closed-ended investment fund or one or more of its directors have interests that align with those of a substantial shareholder, but not with the interests of all shareholders. Examples include:

- The conflict arising between a director of the board and a substantial shareholder that proposed that director for appointment to the board.
- Where a substantial shareholder is also the IM of a closed-ended investment fund, the substantial shareholder could take advantage of their position as IM.

20. Asymmetric information may arise where investors do not have full visibility of the relationships, incentives and degree of alignment between the investment manager and the directors of the closed-ended investment fund. Where the investment manager or one or more directors have interests that are not aligned with those of all shareholders, smaller investors may be less able to identify or assess the resulting conflicts of interests and their implications.

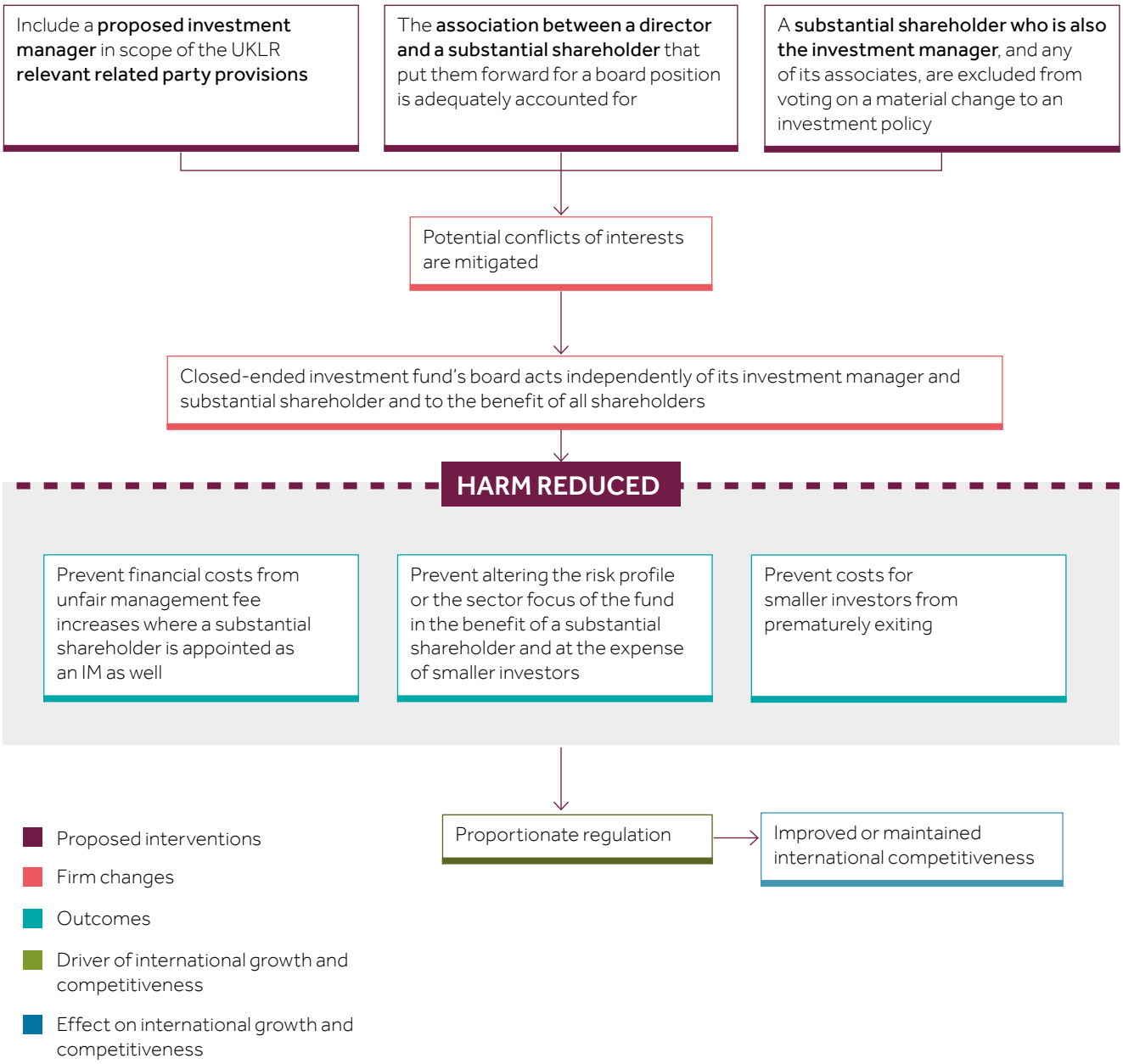
Our proposed intervention

21. We have identified three changes to UKLR 11 that we expect would clarify and strengthen our current rules (see Chapter 3 for details). These include:

- Bringing proposed investment managers within scope of the UKLR relevant related party provisions in addition to incumbent investment managers. This is to ensure that there are consistent protections against unfair investment manager fees involving related parties.
- Ensuring that the association between a director and a substantial shareholder that proposed them for a board position is adequately accounted for in the UKLRs, to protect the integrity of board independence.
- Where a substantial shareholder is also an investment manager of the closed-ended investment fund, recognising the conflict arising by preventing the substantial shareholder form voting in material changes to the investment policy.

22. These proposals seek to clarify and strengthen our current rules to help prevent conflicts of interests. This would in turn reduce the risk of potential harm arising that we discussed in 'Description of harm'.

Figure 1: Causal chain



Options

23. In developing our proposals, we considered a range of alternative policy options. We assessed policy options against a consistent set of criteria, including their effectiveness in addressing the potential harms, minimising the risk of unintended consequences, proportionality and their impact on the competitiveness and growth of UK financial markets.

24. We also considered our approach from the perspective of 'rebalancing risk' (Our strategy 2025 to 2030). This approach recognises the important role of risk taking in driving innovation and delivering benefits for financial services markets, while also reducing harm where proportionate. In 'rebalancing risk' we aim to make balanced, risk-informed decisions that reflect the real-world complexity of dynamic markets, and allow us to be a smarter, more adaptive regulator.

25. We have sought to strike a balance with the relevant trade-offs. Our proposals do not aim to eliminate all potential conflicts of interests as this would impair shareholder activism, board flexibility to take appropriate action, and the attractiveness of the UK market. By striking this balance, we expect that some less likely risks of harm might arise from any potential remaining conflicts of interests.

'Do nothing'

26. We consider that the market cannot address harm independently and without regulation to protect investors because of the conflicts of interests that could materialise without our intervention and the associated information asymmetries. As a result, the option of not intervening ('do nothing') could create risks of harm.

Other policy options

27. We considered further increasing the circumstances where an independent shareholder vote would be required (eg require an independent shareholder vote for all investment manager appointments). However, this would disproportionately impede positive shareholder activism or create unintended consequences, introducing disproportionate costs.

28. Where a substantial shareholder is also the closed-ended investment fund's investment manager, and a material change in investment policy is proposed, we considered the following options (see paragraph 3.38 of the consultation for details):

- **c.** A double majority – require a material change to be approved by: (i) the shareholders of the listed company and (ii) the independent shareholder of the listed company. This would seek to ensure the voices of minority shareholder are not overridden.
- **d.** A vote cap – this would allow the substantial shareholder to participate in a vote up to 20% only of the total voting rights of the closed-ended investment fund.
- **e.** Limiting the proposal in paragraph 3.35 of the consultation – so that the substantial shareholder could not vote only where the board is not fully independent of the substantial shareholder that is also the investment manager.

29. We are seeking views on these alternative options.

Baseline and key assumptions

30. The costs and benefits of our proposals must be assessed against a baseline. A baseline represents the way the world would look like in the absence of the proposed intervention (the counterfactual). In this section we discuss our assumptions for the baseline.

31. Our proposals are conditional on certain events. These are:

- Material change in investment policy (IP) of the closed-ended investment fund; 38 events based on Association of Investment Companies (AIC) data from 2024 and 2025.
- Appointment of a new IM: based on data from the AIC, there were a total of 14 new IM appointments from 2022 until 2025 (or 4 new appointments on average per year), excluding 2 occasions where funds became self-managed.

32. We consider it is not reasonably practicable to estimate the occurrence of these events in the future, so we extrapolate them to the future 10-year horizon for the purpose our CBA. We assume the following events for our counterfactual:

- 4 new IM appointments per year.
- 1 appointment per year of a new IM who is also a substantial shareholder.
- 3 IP changes per year for funds where the IM is also a substantial shareholder.

33. The last two assumptions in paragraph 32 of the CBA are based on assuming that there are currently 30 closed-ended investment funds with substantial shareholders.

34. We use the standard assumptions from our Statement of Policy on CBAs:

- We use the standard appraisal period of 10 years.
- We assume 100% compliance.
- We apply a discount rate of 3.5% to determine the present value of the stream of costs and benefits we expect to occur in future years.
- All values are in 2025 prices.

Summary of Impacts

35. We expect our proposals will benefit investors of closed-ended investment funds by mitigating the harm that can arise from several potential conflicts of interests. It is not reasonably practicable to estimate the benefits of our proposals due to data limitations.

36. We estimate the present value (PV) cost of our proposals over a 10-year appraisal period is approximately £4.35m. The largest share of costs is from the potential increase in the number of sponsor fair and reasonable confirmations and market notifications.

37. We consider it is not reasonably practicable to do a sensitivity analysis of our estimates due to their low impact (£0.5m equivalent annual net direct cost).

38. Overall, we expect our proposals to be net beneficial. In the 'Benefits' we provide an illustrative example indicating how this may arise. Tables 1 and 2 summarise the impacts.

Table 1: Summary of total benefits and costs, by cost type

	Benefits		Costs	
Type of cost or benefit, by stakeholder	One-off	Ongoing, annual	One-off	Ongoing, annual
Closed-ended investment funds				
Familiarisation and gap analysis *(direct)*			£0.2m	-
Training for directors *(direct)*			£0.53m	-
Total event-based costs *(direct)*			-	£0.42m
Investors (non-retail and consumers)				
Costs: • Potential loss of voting rights of substantial shareholders who are also appointed IM. • Pass-through costs of our proposals.				Not quantified
Reduction in harm in the form of: • Financial costs from unfair management fees • Altering the risk profile or the focus of the fund. • Force smaller investors to prematurely exit, potentially incurring capital losses, tax and transaction costs. (indirect)		Not quantified		
FCA				
Proposal development and subsequent oversight *(direct)*			Negligible	Negligible

Table 2: Net direct costs to firms

	Total Net Direct Cost to Business (10 year PV)	Equivalent Annual Net Direct Cost to Business
Total net direct cost to business (Costs – Benefits)	£4.35m	£0.5m

Benefits

39. Our proposals aim at mitigating conflicts of interest that could arise in future. As a result, we expect our proposals will reduce the potential harm discussed in the 'Rationale for intervention'. In particular:

- Financial costs from unfair management fee increases where a substantial shareholder is appointed as an IM as well.
- Altering the risk profile or the sector focus of the fund, without a due process to consider the interests of smaller investors (eg a fund focused on technology sector but the new strategy would focus on property).
- Smaller investors are forced to prematurely exit to find a fund better aligned with their preferences, potentially incurring capital losses, tax and transaction costs.

40. We additionally expect that our proposals would strengthen our current rules and ensure they work effectively in scenarios that have not materialised yet but may occur in the future.

41. Due to the relative low frequency of the events captured by our proposals and the low impact of our proposals, we consider it is not reasonably practicable to quantify the benefits of our proposals. However, we provide an illustrative example below about the potential scale of the benefits in the case of unfair management fee increases.

Preventing unfair increases in management fees: An illustrative example

42. We assume that the following scenario could materialise to illustrate the potential scale of a benefit of our proposals:

- A substantial shareholder is also appointed as IM with a proposed increase in fee from 0.7% of NAV to 1%. This could potentially be unfair, because, based on AIC, there has been a general trend of reduction in the management fees to the benefit of the shareholders. This can also be seen in the AIC's 2025 investment trust review: from 2023 until 2025, 99 funds reduced their fees.
- Under our proposals, this would trigger the requirements of a relevant related party transaction (RRPT) requiring a sponsor fair and reasonable confirmation and market notification.

43. Based on market intelligence from CP23/31, the sponsor fair and reasonable confirmation and market notification could cost £0.2m. Due to data limitations,

this approximate estimate relies on information collected for CP23/31, which is not entirely suitable. The £0.2m estimated cost is likely an upper limit and the actual cost will depend on the complexity of the underlying event. There would likely be a negligible additional cost of £2K for board review but we ignore it for the purposes of this illustration (see the 'Costs' section).

44. Using that the average size (AUM) of the closed-ended investment funds is £863m (see 'The Market' section) to proxy for the NAV, we can approximate that the fee increase would cost to investors on average £2.59m ((1%-0.7%)x£863m).

45. If this fee increase were unfair, our rules would likely prevent it, saving the investors the £2.59m, and it would cost £0.2m. That is, the net benefit (net cost avoided) would be £2.39m (£2.59m-£0.2m). If this fee increase were indeed fair and reasonable, our proposals would cost to investors of that fund a total of £0.2m.

Costs

Costs to closed-ended investment funds

46. The main costs of our proposals will be incurred by 264 closed-ended investment funds. We assume that:

- 13 of these are large, with AUM above £2,763m.
- 50 are medium, with AUM between £802m and £2,763m.
- 201 are small, with AUM below £802m.

Familiarisation and gap analysis

47. The closed-ended investment funds will incur one-off costs to familiarise themselves with our proposed amendments in the UKLRs and complete gap analysis to understand the changes they need to make to comply.

48. Table 3 summarises the estimated costs using assumptions from our Standard Cost Model (SCM). These are based on reviewing 50 pages of policy documentation (the CP) and 6 pages of the new legal text.

49. After initial familiarisation and gap analysis, closed-ended investment funds will incur training and event-based costs which we estimate in the following subsections.

Table 3: Familiarisation and gap analysis costs

Issuer size	Assumptions[1]	Average cost per firm (£)	Total costs to firms (£)
Large	Familiarisation: 20 compliance staff, with an hourly salary of £75. Gap analysis: 2 legal staff, with an hourly salary of £87.	4,000	52,000
Medium	Familiarisation: 5 compliance staff, with an hourly salary of £70. Gap analysis: 2 legal staff, with an hourly salary of £81.	1,000	50,000
Small	Familiarisation: 2 compliance staff, with an hourly salary of £58. Gap analysis: 1 legal staff, with an hourly salary of £77.	300	61,000
Total 10-year PV cost			0.2m

Table notes: 1. All salaries include an additional 21% for overheads. 2. Figures might not add-up because of rounding.

Training costs for directors

50. The closed-ended investment funds will incur one-off costs to train their board of directors on our proposals. The cost of training reflects both the time lost by trainees and the time required to develop and deliver the training, in line with our SCM.

51. We estimate the number of directors for each closed-ended investment fund that will need training using Morningstar data. As at 13/5/2026, the large closed-ended investment funds had on average around 7 directors; the medium closed-ended investment funds had around 6; the small closed-ended investment funds had around 5.

52. Table 4 below outlines the key assumptions underlying our calculations and the estimated costs of training.

Table 4: Training costs

Issuer size	Assumptions[1]	Average cost per issuer (£)	Total costs to issuers (£)
Large	7 board directors with hourly salary £433. **In house training (100% of large firms)**: 1 hour of training, 8 hours to prepare training.	5,000	65,000
Medium	6 board directors with hourly salary £321. **In house training (40% of medium firms)**: 1 hour of training, 8 hours to prepare training. **External training (60% of medium firms)**: £700 per persons per day of training	3,400	170,000
Small	5 board directors with hourly salary £120. **External training (100% of small firms)**: £700 per persons per day of training	1,500	302,000
Total 10-year PV cost			**0.53m**

Table notes: 1. All salaries include an additional 21% for overheads. Figures might not add-up because of rounding.

Event-based costs

53. The proposed changes to UKLR 11 only apply to specific events we discuss in paragraphs 31 and 32 of the CBA.

54. Under our proposed requirements we assume that the board of directors of closed-ended investment funds will need to spend in total a full time equivalent of 1 day (1 person day) for each event. This time will be spent ensuring compliance to our proposals for each event (eg reviewing and identifying non-independent directors and ensuring they do not vote on the appointment of a proposed IM). Based on the hourly salary, including 21% overheads of board directors from Table 4 and assuming 7 hours per person day we estimate the cost per event to be (after rounding to the nearest 1000s):

- £3,000 (hourly salary £433 X 7 hours) per event per large closed-ended investment fund.
- £2,000 (hourly salary £321 X 7 hours) per event per medium closed-ended investment fund.
- £1,000 (hourly salary £120 X 7 hours) per event per small closed-ended investment fund.

55. Additionally, under our proposals, certain events may trigger the requirements regarding the RRPT requiring a sponsor fair and reasonable confirmation and market notification. As we discussed in paragraph 43 of our CBA, an approximate cost of this requirement

would be £0.2m per RRPT. This cost is additional to the costs in paragraph 54 and would only be incurred when the RRPT is 'reportable'. We assume this will happen twice a year as a result of our proposals.

56. Using the assumptions in paragraph 32 and assuming that these events are not specific to certain closed-ended investment fund sizes, we can obtain how these events materialise for each fund size:

- 1 new IM appointment per year per large closed-ended investment fund; 1 per medium; 2 per small.
- 1 appointment per year of a new IM who is also a substantial shareholder across the entire sector.
- 3 IP changes per year for funds where the IM is also a substantial shareholder across the entire sector.

57. For the last two events in paragraph 56, we assume their cost is that of a large closed-ended investment fund (see paragraph 54), £3,000, to obtain an upper estimate.

58. Table 5 below shows our estimates of the event-based costs of our proposals.

Table 5: Event-based costs of proposed UKLR amends

Issuer size	Number of events per year	Average cost per Issuer (£)[1]	Total costs to all Issuers (£)
Large	1 new IM appointment per year	3,000	3,000
Medium	1 new IM appointment per year	2,000	2,000
Small	2 new IM appointment per year	1,000	2,000
Across the entire sector	2 sponsor fair and reasonable opinions and market notifications	200,000	412,000
	1 appointment per year of a new IM who is also a substantial shareholder across the entire sector	3,000	
	3 IP change per year for funds where the IM is also a substantial shareholder	3,000	
Total PV (10-year horizon)			3.61m

Table notes: 1. All salaries in costs include an additional 21% for overheads. 2. Figures might not add up because of rounding.

Costs to investors (including consumers)

59. We expect that some of the compliance costs will be passed-through to the shareholders of the closed-ended investment funds via the management fees. These shareholders also include consumers who have directly or indirectly (eg via a mutual fund) invested in the closed-ended investment funds. We do not account for these costs separately to avoid double counting.

Costs to the FCA

60. Due to their nature, our proposals only have an incremental negligible cost impact on the FCA that will be covered with our business-as-usual resources. This includes the development of our proposals and the subsequent supervision.

Wider economic impacts, including on secondary objective

61. Overall, we expect the wider economic impacts of our proposals to be small and it is not reasonably practicable to quantify them. With respect to our Secondary International Competitiveness and Growth Objective (SICGO), we expect a negligible but likely positive impact on the UK economy, because we expect that our proposals will be net beneficial and remain proportionate.

62. Finally, our proposals have a small risk of reducing the attractiveness of the UK public market and could also push more investors into private equity. However, based on recent data, only a small number of the closed-ended investment funds have a substantial shareholder. This is likely because there are already existing requirements for substantial shareholders that create the incentive to keep their stake below the threshold of 20%. So, the incremental impact of the new proposals on the attractiveness of the UK's listing markets will likely be minimal.

Monitoring and evaluation

63. Our approach to monitoring and evaluating the impact of our proposals is set out in paragraphs 1.12 and 1.13 of the consultation paper.

64. For details of our supervisory approach, please refer to paragraph 2.23 of the consultation paper.

Question 17: **Do you have any comments on our Cost Benefit Analysis?**

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (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 s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex 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 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of protecting the integrity of the UK financial system and to protect consumers. Ensuring conflicts of interests are managed properly strengthens the governance framework for closed-ended investment funds and supports decisions being taken in the best interest of shareholders as a whole. In addition, increasing transparency about how closed-ended investment funds are governed should increase broader investor confidence in the UK listed markets and the reputation of UK listing.

8. These links to our objectives are outlined in our causal chain in Figure 1 of our CBA, in Annex.

9. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they seek to prevent harm arising from financial costs from unfair management fees, altering the risk profile of the fund (without a due process to consider the interests of smaller investors) and forcing smaller investors to prematurely exit, potentially incurring losses or tax costs.

10. For the purposes of the FCA's strategic objective, "relevant markets" are defined by section 1F FSMA.

11. We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth. With respect to our Secondary International Competitiveness and Growth Objective (SICGO), we expect a negligible but likely positive impact on the UK economy, because we expect that our proposals will be net beneficial and remain proportionate.

12. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

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

13. Our proposals are targeted and seek to clarify and strengthen our existing rules in an efficient and economic way.

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

14. The CBA in Annex 2 outlines the costs and benefits for the proposals set out in this consultation. We consider that the benefits of our proposals outweigh the costs.

The general principle that consumers should take responsibility for their decisions

15. Our proposals seek to ensure more consistent application of our rules which seek to ensure an appropriate degree of transparency where conflicts of interest arise, to

ensure conflicts of interests cannot be exploited and shareholders have the information they need to make informed decisions.

The responsibilities of senior management

16. Our proposals seek to ensure more consistent application of the rules intended to ensure the effective oversight of a listed closed-ended investment fund's external investment manager by the fund's board of directors.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons

17. We have sought to be proportionate by targeting our proposals at listed closed-ended investment funds and only in those areas where we consider clarification and more consistent application of existing requirement would be beneficial.

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

18. 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).

19. The proposals are not targeted at minimising financial crime. However, they aim to improve transparency and management of conflicts of interests, enabling shareholders to make informed decisions.

20. We have had regard to the content of the Treasury's November 2024 remit letter. Our view is that our proposals are aligned with the Government's ambition for responsible and informed risk taking. Our proposals promote improved transparency and support shareholder activism and choice. We consider our proposals therefore contribute to improving trust in UK financial markets, encouraging greater investment in the UK economy.

Expected effect on mutual societies

21. The FCA does not expect the proposals in this paper to have an impact on mutual societies as these are not listed issuers in the scope of our proposals.

Equality and diversity

22. 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.

23. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.30 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRA)

24. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that we have carried out our regulatory activities in a way which is transparent, accountable, proportionate, consistent and targeted only at areas where we consider action is needed.

25. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that that approach set out in our consultation, CBA and draft instrument is provided in a clear and transparent way which will help listed closed-ended investment funds to understand and meet the requirements. We will consider feedback to this consultation and refine proposals where necessary.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
The Act	Companies Act
AIC	Association of Investment Companies
AUM	Assets Under Management
The Code	The UK Corporate Governance Code
CBA	Cost Benefit Analysis
CP	Consultation Paper
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000
HMT	His Majesty's Treasury
IP	Investment Policy
IM	Investment Manager
NAV	Net Asset Value
LRRA	Legislative and Regulatory Reform Act 2006
RRPT	Relevant Related Party Transactions
SCM	Standard Cost Model
PV	Present Value
UKLR	UK Listing Rules

Appendix 1

Draft Handbook text

UK LISTING RULES (INVESTMENT ENTITIES) INSTRUMENT 2026

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 96 (Obligations of issuers of listed securities);
(3) section 137A (The FCA's general rules);
(4) section 137T (General supplementary powers); and
(5) section 139A (Power of the FCA to give guidance).

B. The rule-making powers listed above are specified for the purpose 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 UK Listing Rules sourcebook (UKLR) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the UK Listing Rules (Investment Entities) Instrument 2026.

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 stated otherwise.

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

proposed investment manager	any *person* who would become the *investment manager* of a *closed-ended investment fund* under a transaction or arrangement which that *closed-ended investment fund* is proposing to enter into.

Amend the following definitions as shown.

associate

(1) (in *UKLR*, in relation to a *director* (other than a *director* of a *closed-ended investment fund* in *UKLR* 11), *substantial shareholder*, or *person exercising significant influence* who is an individual and, in *DTR*, in relation to a *related party* who is an individual):

…

(d) …

(1A) (in *UKLR* 11, in relation to a *director* of a *closed-ended investment fund* who is an individual):

(a) the *persons* set out in paragraph (1)(a) to (d) above;

(b) any *substantial shareholder* that, acting individually or in concert with other *persons*, proposed that *director* for appointment as a *director* of the *closed-ended investment fund* where, following the proposal, that appointment was made;

(c) any *associate* of a *substantial shareholder* in (1A)(b) above (for these purposes, 'associate' has the meaning in paragraph (1) of the definition of *associate* in relation to an individual and paragraph (2) of that definition in relation to a *company*).

(2) …

(2-A) (in *UKLR* 11, in relation to an *investment manager* and a *proposed investment manager* which is a *company*):

(a) any other *company* which is its *subsidiary undertaking* or *parent undertaking* or fellow *subsidiary undertaking* of the *parent undertaking*;

(b) any *company* whose *directors* are accustomed to act in accordance with the *investment manager's* or the *proposed investment manager's* directions or instructions;

(c) any *company* in the capital of which the *investment manager* or the *proposed investment manager* and any other *company* under paragraph (1), (2) or (2-A) taken together, is (or would on the fulfilment of a condition or the occurrence of a contingency be) able to exercise power of the type described in paragraph (1)(c)(i) or (ii) of this definition.

(2A) …

…

relevant related party transaction a *related party transaction* which relates to the fees or other remuneration payable by a *closed-ended investment fund* in connection with services rendered or to be rendered by:

(a) an *investment manager* ~~or a member of the *investment manager's group*~~.;

(b) a *proposed investment manager*; or

(c) a *person* who is a member of the same *group* as the *persons* in (a) or (b).

Annex B

Amendments to the UK Listing Rules sourcebook (UKLR)

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

11 Closed-ended investment funds: requirements for listing and continuing obligations

…

11.4 Continuing obligations, further issuances, dealing in own securities and treasury shares

…

Independence and effective management

…

11.4.13 R …

11.4.13A R (1) Where a *closed-ended investment fund* proposes to enter into a transaction or arrangement with a *proposed investment manager* to appoint them as the *investment manager*, the *closed-ended investment fund* must ensure that members of the board or equivalent body do not:

(a) take part in the board or equivalent body's consideration of the transaction or arrangement; or

(b) vote on the relevant resolution,

if they are not independent of the *proposed investment manager* in accordance with paragraph (2).

(2) For the purposes of paragraph (1), a *person* (P) who is a member of the board or equivalent body of the *closed-ended investment fund* is not independent where:

(a) they are a *director*, *employee*, partner, officer or professional adviser of or to:

(i) the *proposed investment manager*;

(ii) a master fund referred to in *UKLR* 11.2.10R(2) which has appointed the *proposed investment manager* as its *investment manager*; or

(iii) any other *company* in the same *group* as the *proposed investment manager*; or

(b) they are a *director*, *employee* or professional adviser of or to other investment *companies* or funds that are:

(i) managed by the *proposed investment manager*; or

(ii) managed by any other *company* in the same *group* as the *proposed investment manager*; or

(c) they were appointed to the board or equivalent body after being proposed for that appointment by the *proposed investment manager* or by its *associate*.

11.4.13 B R For the purposes of *UKLR* 11.4.13AR(2)(c), P is not independent irrespective of whether:

(1) other *persons* also proposed P for appointment to the board or equivalent body;

(2) the *proposed investment manager* was not a *proposed investment manager* when P was proposed for appointment; or

(3) P has been subsequently re-elected or re-appointed to the board or equivalent body.

Material changes to investment policy

11.4.14 R …

11.4.14 A R Where *UKLR* 11.4.14R applies, the *closed-ended investment fund* must ensure that:

(1) where a *substantial shareholder* is its *investment manager*, the *substantial shareholder*:

(a) does not vote on the relevant resolution; and

(b) takes all reasonable steps to ensure that its *associates* do not vote on the relevant resolution; and

(2) where an *associate* of a *substantial shareholder* is its *investment manager*, the *substantial shareholder* does not vote on the relevant resolution.

…

11.5 Transactions

…

Transactions with related parties

…

11.5.3 R In addition to the definition in *UKLR* 8.1.11R, a *related party* includes:

(1) any *investment manager* of the *closed-ended investment fund*, any *associate* of such *investment manager* and any member of such *investment manager's* group~~.~~; and

(2) solely in relation to a transaction or arrangement which relates to the fees or other remuneration payable by a *closed-ended investment fund* in connection with services to be rendered by a *proposed investment manager* or a member of the *proposed investment manager's* group:

(a) the *proposed investment manager*; and

(b) any *associate* of the *proposed investment manager*.

11.5.3A G The transaction or arrangement in *UKLR* 11.5.3R(2) is a *relevant related party transaction*. The effect of *UKLR* 11.5.3R(2) is that:

(1) a *proposed investment manager* or an *associate* of the *proposed investment manager* is only a *related party* for the purposes of the transaction or arrangement in *UKLR* 11.5.3R(2); and

(2) a *proposed investment manager* or an *associate* of the *proposed investment manager* is a *related party* at the time when the terms of transaction or arrangement are agreed and therefore paragraph 1 of *UKLR* 8 Annex 1 would not apply to that transaction or arrangement.

…

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