

## **Consultation Paper**

### **CP26/35\*\***

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Fair redemption terms for authorised funds investing in illiquid assets

**October 2026**

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## Chapter 1

### Summary

- 1.1** We are consulting on changes to retail investment fund rules so that a fund's redemption terms reflect the time it typically takes to sell illiquid assets like real estate in the portfolio. We want to set clear standards for how firms design and operate their investment products and reduce the risk of people buying unsuitable products. Our proposals will also align these rules with new international standards.

### Limited dealing days and notice periods

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- 1.2** These changes would apply to non-UCITS retail scheme (NURS) funds that:
- are predominantly invested in inherently illiquid assets;
  - offer regular liquidity (investors can currently redeem some or all of their investment at any point, rather than at the end of an agreed period).
- 1.3** We propose to:
- limit the frequency of dealing days (when the fund manager redeems or cancels investors' units in the fund);
  - introduce minimum notice periods for redemptions (how long the investor must wait between putting in a request to redeem and the fund manager executing the redemption);
  - align these minimum redemption terms with the long-term asset fund (LTAF) regime.
- 1.4** We also propose to allow all NURS fund managers to introduce similar limited redemption arrangements if they want to, and to amend some of the related rules.

### Revocation of LTAF redemption requests

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- 1.5** We propose to allow LTAF investors to revoke redemption requests during the notice period if the fund manager is satisfied it would not be unfair to other investors.

### Background

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- 1.6** Fund managers must manage liquidity risks so that investors can exit the fund in line with the terms they chose to invest on. This can be more complex when open-ended funds are invested in assets that take longer to sell, as fund managers need to ensure they still have the liquidity to meet the fund's redemption policy (how quickly investors can get their money out). They often may need to pay investors before they can sell the more illiquid assets in the portfolio.

- 1.7** In recent years, there has been significant growth in private markets. These are an important route for professional and, increasingly, retail investors to diversify their investment. However, they are less transparent than public markets and it takes longer to find buyers and sellers for private market assets like real estate or infrastructure investments. It is important that funds investing in private market assets take account of this reduced liquidity.
- 1.8** We have worked with the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) to develop new international standards for managing liquidity risks. We have reviewed our existing liquidity risk management rules to make sure we align with these standards.
- 1.9** Consistency between a fund's liquidity profile and its redemption terms is a core principle of IOSCO and the FSB's revised recommendations and our existing rulebook. We propose to generally rely on this principle for unauthorised alternative investment funds (AIFs). But we believe more detailed requirements are appropriate for authorised funds, because they are designed to have regulatory protections that make them suitable for retail investors.
- 1.10** This consultation focuses on NURS funds that are predominantly invested in inherently illiquid assets. By structuring the funds as daily-dealt products or without a notice period, the AFMs offer regular liquidity to investors, but create a liquidity mismatch. Limiting the frequency of dealing days for these funds and introducing minimum notice periods will mean that the redemption terms better reflect the time needed to sell the more illiquid assets in the portfolio. This will reduce the risk of the fund manager having to suspend dealing to manage liquidity and will accurately signal to investors the lower liquidity profile of the fund.
- 1.11** This will align the minimum redemption terms with the LTAF regime.
- 1.12** We also propose to allow fund managers of all NURS funds to restrict the liquidity they offer to investors (limited redemption arrangements), to align the fund's redemption terms better with its liquidity profile. We propose to amend some of the rules that govern how an AFM operates these arrangements and explains them to investors.
- 1.13** Lastly, we propose some minor changes to the LTAF regime regarding the revocation of a redemption request once the authorised fund manager (AFM) has accepted it. We are also making small changes to align with recent changes made to the Collective Investment Schemes (COLL) sourcebook to facilitate the 'Direct-to-Fund' dealing model we introduced in April 2026 ([PS26/7: Progressing fund tokenisation](#)).

## Scope

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- 1.14** The proposals in this paper apply to:
- AFMs of NURS funds where at least 50% of the value of scheme property is invested in inherently illiquid assets. But the guidance on appropriate redemption terms is also relevant where NURS funds have material exposure to inherently illiquid assets, albeit below 50% of the portfolio;

- AFMs of NURS funds of alternative investment funds (FAIFs) and other NURS funds using limited redemption arrangements, even where less than 50% of the value of scheme property is invested in inherently illiquid assets;
- AFMs of LTAFs, regarding the proposed changes to the rules on revocation of redemption requests and the updates to accommodate the 'Direct-to-Fund' dealing model.

## Who should read this?

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**1.15** We expect these proposals to be of interest to:

- all AFMs;
- investors in NURS funds with at least 50% of the value of scheme property invested in inherently illiquid assets, or who are indirectly exposed to these funds through pension or savings wrappers or life assurance policies;
- investors in any other NURS fund with limited redemption arrangements;
- fund distributors (such as retail and pension platforms), financial advisers and investment consultants;
- self-invested personal pension (SIPP) operators;
- depositaries, regarding NURS funds in scope of these proposals and changes to the funds investing in inherently illiquid assets (FIIA) regime;
- providers of unit-linked life products that reference relevant NURS funds.

## Chapter 2

# The wider context

### Why we are consulting

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- 2.1** In 2020 (CP20/15), we consulted on minimum notice periods for NURS funds holding at least 50% of scheme property in real estate, to address the risks arising from liquidity mismatch in these funds. However, we paused our consultation as:
- there were concerns among stakeholders that the fund distribution system was not equipped to accommodate funds with notice periods; and
  - IOSCO and the FSB were developing new international standards for managing liquidity risks.
- 2.2** Ensuring that illiquid funds have appropriate redemption terms is a priority for us, so we think that now is an opportune time to reconsult on the proposals, which we have adapted in response to feedback to the 2020 consultation.
- 2.3** We have seen progress in the distribution of funds with notice periods as some retail platform providers have upgraded their infrastructure, but others still have significant challenges. These operational challenges should not stop us dealing with liquidity mismatch in some NURS funds, and the risks to investors which flow from it.
- 2.4** We recognise that the fund distribution system has largely been built around a daily-dealt model and that there are challenges with moving away from that. However, the successful implementation of our proposals depends on the steps which distributors and intermediaries, especially platform providers, take to update their infrastructure to accommodate a broader range of fund structures. This is not only important in the context of the illiquid NURS in scope of our proposals, but also the future growth of the UK fund sector and its ability to provide a channel for retail investment into long-term productive assets.
- 2.5** Our new proposals are broader than in 2020, capturing all inherently illiquid assets rather than just real estate. This aligns with the updated international standards and the affected funds fall into scope of IOSCO's Category 3 illiquid funds. IOSCO recommends that firms restrict liquidity for these funds through long notice or settlement periods.
- 2.6** It is important for the UK economy that retail investors can have a straightforward way to invest in:
- long-term, productive assets, such as housing and infrastructure projects;
  - small but potentially high growth companies in the life sciences and technology sectors.
- 2.7** We want to encourage this through our regulatory framework for authorised funds. In recent years, we, along with the Bank of England and HM Treasury, have worked to

reduce the barriers that prevent retail investors accessing productive assets. This includes through the Productive Finance Working Group and ongoing work to improve the infrastructure of the UK fund distribution system.

- 2.8** Productive assets can take significantly longer to sell than listed equities or bonds. Significant exposure to this type of assets may not be unsuitable for funds that offer regular liquidity to investors. We believe retail investors should be able to invest in inherently illiquid assets through an open-ended fund, but the redemption terms should reflect how long an orderly sale would typically take. When investing in productive assets it is also important that investors understand the need to lock their money away for longer for potentially greater returns. This is not the case currently for some funds.
- 2.9** As explained in Chapter 7, we do not believe that more restrictive redemption terms automatically make a product more complex for a retail investor, but rather make the product more suitable for long-term investment.
- 2.10** We propose to limit our proposals to NURS funds. The other types of authorised fund which can have exposure to inherently illiquid assets are Qualified Investor Schemes (QIS) and LTAFs.
- 2.11** LTAFs already must have redemption terms that reflect the illiquidity of their assets. We will consider the position for QIS as part of our second consultation on reform of the alternative investment fund manager (AIFM) regime. Nevertheless, a full-scope UK AIFM managing a QIS must already align the dealing terms with the liquidity of the underlying assets, and a number already have notice periods. Further, as these funds are primarily for professional investors, they do not present the same consumer protection concerns. As such, we are minded to allow QIS managers to retain greater flexibility on the redemption terms.
- 2.12** In [CP26/28](#), we consulted on enhancing the liquidity risk management rules for AIFMs of unauthorised AIFs. This includes making clear that the requirement to ensure consistency between the fund's investment strategy, liquidity profile and redemption policy applies both at the time of the fund's design and on an ongoing basis.
- 2.13** The new proposals in this CP would affect relatively few funds. NURS rules limit an AFM's ability to hold more than 50% of scheme property in inherently illiquid assets, so our changes would mainly apply to direct real estate funds and some funds of funds (especially FAIFs because of their wider investment powers).
- 2.14** NURS funds have wider investment powers than UCITS schemes. They can:
- invest in real estate;
  - invest in other funds that have exposure to illiquid assets;
  - hold 20% of their portfolio in unlisted transferable securities (double the allowance for a UCITS scheme).
- 2.15** NURS funds also have more flexibility to borrow, so it is particularly important that the AFMs manage their liquidity risks well.

- 2.16** Currently, a consumer wanting to invest in productive assets can use an LTAF, with a minimum 90 day notice period, or a similarly illiquid NURS fund which offers more regular liquidity. Examples include a NURS real estate fund, or a NURS FAIF that invests in other funds invested in inherently illiquid assets.
- 2.17** We designed the LTAF regime for investment into illiquid assets, with mandatory minimum redemption terms to match. We believe that an illiquid NURS structure that provides more regular liquidity is no longer an appropriate alternative. For this reason we are proposing minimum redemption terms for illiquid NURS funds.

## Risks of liquidity mismatch

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- 2.18** The daily dealing structures of many NURS funds invested in inherently illiquid assets can appeal to retail investors. But we are consulting on rule changes because the mismatch between the redemption policy and the liquidity of the assets in the fund poses multiple risks of harm, which our proposals are intended to address. These are:
- **Diluted fund performance:** Some AFMs maintain the offer of quick liquidity by holding a large cash balance or other liquid investments (such as shares in Real Estate Investment Trusts (REITs)). Holding excess cash can reduce the investment return, which is referred to as 'cash drag'. Meanwhile, equity securities can be more volatile and do not give investors the same level of direct exposure to productive assets that they were expecting.
  - **Less effective anti-dilution tools:** Providing quick liquidity from an illiquid fund makes it harder to assign costs between entering, remaining and exiting investors. The AFM can only sell a pro rata (vertical) slice of the portfolio some time after paying out the redemption. To calculate the dilution adjustment, they must make assumptions about costs which might not be finalised for months, during which market conditions may have changed. This could mean the fund's value is diluted for the remaining investors if the costs are underestimated.
  - **Investors do not make informed decisions:** The promise of quick liquidity means that retail investors may not understand the trade-offs and risks of inherently illiquid assets. This means they may not be able to make informed decisions about how much to lock away in longer-term assets.
  - **Suspension of dealings:** The ability to suspend dealings in a fund is an important liquidity management tool that protects investors, but AFMs generally only use it in exceptional circumstances. Difficulties in selling scheme property or temporary shortfalls in liquidity may not justify suspension on their own. Repeated lengthy suspensions in the sector show that AFMs cannot always maintain the promise of quick liquidity.
- 2.19** A greater risk of suspended funds does not promote confidence in UK financial markets. We consider it in the interests of the wider UK economy to align the authorised fund framework with international standards and support robust liquidity risk management.
- 2.20** IOSCO's final report explained that a first-mover advantage may lead to excess redemptions, and sales of portfolio assets to meet them may add to stress in financial

markets. So, although it only affects a small number of funds, we believe that addressing the liquidity mismatch will make UK markets more resilient.

- 2.21** Anti-dilution tools can help mitigate the risk of first-mover advantage, by reflecting the costs of selling a vertical slice of scheme property in the dilution adjustment or spread. But the nature of inherently illiquid assets means that it will inevitably be harder for the AFM of a daily-dealt fund without a notice period to liquidate them quickly without affecting market prices.

## What we want to achieve

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- 2.22** We believe that our proposals will:

- **Improve liquidity risk management of illiquid NURS funds:** This should reduce liquidity pressures and dilution risk and, in more extreme circumstances, the chance of suspensions or forced asset sales that can depress market prices.
- **Help consumers access better products to achieve their investment goals:** The affected fund population is small, but we see cash holdings in daily dealt illiquid NURS materially above, in some cases more than double, the average (around 6%) seen across comparable funds with 90-day notice periods. So, in principle, we believe redemption terms that are better aligned to the liquidity profile of the underlying assets could allow the AFM to reduce reliance on cash buffers or other liquid investments. They can then invest more of consumers' money in the asset class they wanted, and offer a better return.
- **Reduce the risk of retail investors buying unsuitable products:** The implications of the illiquidity will be clear from the outset – investors will not have immediate access to their money. AFMs should always warn investors of any liquidity risk, but appropriate redemption terms should make it clear that the fund is a long-term investment.
- **Encourage people to invest in regulated products:** We have seen retail investors using unregulated high-risk investments such as loan notes and mini bonds, which pose a high risk of harm. Where exposure to illiquid assets is appropriate to a retail investor's needs, we want to encourage investment through regulated open-ended structures.
- **Provide a resilient regulatory framework for the UK financial system:** A predictable and consistent regulatory framework aligned with international standards will help the UK withstand market shocks and attract overseas investors. This should support greater investment into illiquid assets, support UK economic growth and help a broader range of funds to enter the market.

## The wider context

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- 2.23** In August 2026, we published revised rules and new guidance for liquidity risk management in UCITS schemes and NURS funds ([PS26/17](#)). They aim to ensure that

AFMs have the right tools to protect investors against dilution and consider liquidity in a holistic way. We also set out our expectations for strong liquidity risk management.

- 2.24** Significant exposure to less liquid transferable securities in a daily-dealt fund can also create liquidity risks and AFMs of these funds will need to consider the recent changes we made in PS26/17 to tighten the rules on when a transferable security is an approved security. This includes removing the listed asset presumption and providing new guidance on how an AFM should assess a transferable security's liquidity risk.
- 2.25** However, as we also made clear in PS26/17, the purpose of the rule changes was not to limit investment in less liquid or illiquid assets, but to ensure that, where AFMs do invest in these securities, they adequately account for the risks of doing so. We also explain in paragraphs 3.31-3.32 that we do not propose to treat transferable securities admitted to trading on an exchange as inherently illiquid assets.
- 2.26** In CP26/28, we proposed revised liquidity risk management rules for AIFMs of unauthorised AIFs. For example, we proposed a new baseline liquidity risk management framework for small AIFMs, which are currently not subject to any explicit rules on liquidity risk management. The consultation closes on 22 October 2026.

## The impact on existing investors and Individual Savings Account (ISA) eligibility

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- 2.27** It is important that competition drives a market where retail investors can choose from a broad range of funds, including investments in longer-term assets.
- 2.28** Existing investors will have invested in the affected funds on the presumption that they can request a redemption on a daily basis, or at such other times as specified in the fund documentation. The effect of the proposed rules would be that investors need to wait longer to exit the fund and we recognise that this will not suit all investors' liquidity preferences. However, the proposals are intended to improve the overall resilience and suitability of the funds for retail investors, and we consider that restricted liquidity is one of the key trade-offs when investing in illiquid assets.
- 2.29** It is important that investors are informed in good time that the redemption terms of a fund will be changing so they can decide how this affects their financial planning, and we have factored this into our proposed rules and guidance.
- 2.30** We believe an important factor in how retail investors view these funds going forwards will be how easily they can continue to invest and redeem their holdings through the existing distribution chains. Most retail investors use an intermediary such as a platform provider, so it is important that the fund distribution system can accommodate a range of fund structures. We are aware that a notice period will require more complex platform infrastructure to provide a smooth experience for retail investors. We will continue to engage with industry stakeholders to help them find common solutions to these challenges.

- 2.31** We are aware that market solutions are currently being developed to potentially support platforms offering notice periods. We want to support innovation in this space wherever possible. We also think it is important that steps are taken across the market to improve the understanding of non-daily dealt funds, so that advisers and investors understand that notice periods and other liquidity management tools are a fundamental design feature, rather than a product weakness.
- 2.32** In 2020, some stakeholders said the proposals could disadvantage retail investors by making them bear the risk of the fund's value changing during the notice period. For example, an investor wanting to redeem their units would not find out the redemption price for at least 90 days and the net asset value (NAV) of the fund could change during this time.
- 2.33** We believe that this risk is an inherent feature of investing in illiquid assets. Being able to exit an illiquid fund at the NAV within a matter of days due to a liquidity buffer can give the redeeming investor an advantage. But the remaining investors in the fund can be disadvantaged if they are exposed to a greater dilution risk as a result.
- 2.34** We recognise that continued eligibility for inclusion in ISAs is an important factor in whether NURS funds with notice periods remain attractive to retail investors. We acknowledge the feedback to CP 20/15 regarding the importance of ISA eligibility for the successful implementation of our proposals. NURS with notice periods would be eligible for the Innovative Finance ISA, but we are aware industry's strong feedback has been that these funds should remain eligible for the Stocks & Shares ISA, and so be treated consistently with the LTAF.
- 2.35** We believe that our proposals are proportionate to the extent that they involve the potential interference with investors' existing property rights.
- 2.36** We will take ISA eligibility into account when deciding if and when to make final rules.

## Implementation period

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- 2.37** In recognition of the operational challenges, we propose that the implementation period for our proposals should be long enough for a smooth transition with as little disruption as possible for retail investors.
- 2.38** Respondents to CP20/15 felt this should be at least 2 years. We therefore propose a 2-year implementation period for existing NURS funds that would be FIIAs under the amended definition. This should be enough time for AFMs to:
- change their dealing terms;
  - update fund literature; and
  - work with administrators and distributors to ensure that investors can access these funds in broadly the same way they do now.
- 2.39** This timeline will also allow us to work with AFMs and distributors to minimise disruption in the distribution of these funds due to operational constraints, as we have been doing

to date. We expect that the successful implementation of these proposals will require regular engagement with industry stakeholders to monitor progress.

### **New NURS funds in scope of FIIA regime or which have limited redemption arrangements**

- 2.40** For any new funds launched after the rules are made, we propose the new rules apply 6 months later.

### **Existing NURS funds in scope of FIIA regime**

- 2.41** AFMs of existing NURS funds would be able to introduce the FIIA-prescribed limited redemption arrangements before the end of the 2 years, should they wish to do so. However, they would need to comply with all the rules that apply to the operation of FIIA-prescribed limited redemption arrangements.

### **Existing NURS funds brought into scope of FIIA regime for first time**

- 2.42** As we propose to change the definition of a FIIA, this will mean that some NURS funds are brought into scope of the regime for the first time.
- 2.43** We propose that AFMs of these NURS funds and their depositaries must comply with the **existing** FIIA rules from 1 year after the new rules are made. In the case of the AFM, these are the additional functions of an AFM of a FIIA in COLL 6.6.3CR to COLL 6.6.3FR and guidance on suspension and restart of dealings in COLL 7.2.2G(1B). But we would not apply the existing risk warning rules in COBS 4.5A.17R or COBS 4.5.16R because it does not seem proportionate to require the AFMs of NURS funds coming into scope of the FIIA regime for first time to update their marketing materials with the existing risk warning, only to change it again to the new warning 1 year later.
- 2.44** In the case of the depositary, these are the rules and guidance on oversight of the liquidity management of a FIIA in COLL 6.6.4BR to COLL 6.6.4DG and the duty to inform the FCA in COLL 6.6.11G.
- 2.45** However, the AFMs of existing NURS funds coming into scope of FIIA regime for first time would not need to amend the redemption terms of these funds until 2 years after the rules are made.

### **Existing NURS funds with limited redemption arrangements or NURS FAIFs but which are not FIAs**

- 2.46** Some of our new and amended rules will apply to AFMs of NURS funds that already have limited redemption arrangements or that are NURS FAIFs, although these funds will not be FIAs. We propose that the relevant rules will take effect 6 months after they are made. However, we propose to allow an additional 6 months to comply, including updating the instrument constituting the fund and the prospectus. We do not expect that this cohort of firms should need to make any substantial changes to their fund documentation or existing practices.

**Question 1:** Do you think 2 years is enough time for:

- AFMs of FIIAs and the wider fund industry to be ready to comply with our proposals; and
- investors that currently hold FIIA units in a Stocks & Shares ISA to make decisions and take any necessary action?'

## Chapter 3

# Minimum redemption terms for NURS funds invested in inherently illiquid assets

- 3.1** The proposals in this consultation concerning redemption terms are limited to NURS funds.

## Adapting our previous proposals

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- 3.2** In CP20/15 we proposed to:

- create a new category of NURS funds called funds predominantly investing in property (FPIPs);
- carve these funds out of the pre-existing regime for FIIAs in our Handbook

That was because our proposals were limited to real estate NURS while the FIIA regime is broader.

- 3.3** Our proposed rules for FPIPs were broadly equivalent to the FIIA rules in terms of:

- enhanced depositary oversight;
- liquidity risk contingency plans; and
- risk warnings on financial promotions (although these would have differed between FIIAs and FPIPs).

This would have left only a very small number of funds in the FIIA regime, given that NURS real estate funds represent the vast majority of FIIAs.

- 3.4** Some respondents questioned why we had focused only on real estate funds, rather than looking more broadly at inherently illiquid assets.

- 3.5** Given the restrictions in NURS investment powers, there are limited ways for a NURS fund manager to construct a portfolio with at least 50% of the value of scheme property in inherently illiquid assets. But we believe it is right to treat all funds above this threshold in the same way, so we have widened our scope and now propose to amend the existing FIIA rules instead. We will not create the FPIP definition.

- 3.6** Beyond real estate funds, we think the NURS funds most likely to fall into scope are some pursuing a fund of funds strategy, where the second funds are invested in inherently illiquid assets. However, with the exception of the 20% unapproved securities bucket, the general rule is that NURS funds can only invest in other funds that are UCITS schemes, other NURS funds, recognised schemes or other funds that have investment and borrowing powers which are the same as or more restrictive than those of a NURS fund.

**3.7** We therefore consider it unlikely that a NURS fund would reach the 50% threshold through investing in second schemes, given that those second schemes should not have above 50% of the portfolio in inherently illiquid assets (unless they are real estate funds).

**3.8** The investment powers of a NURS FAIF are wider and allow investment into other funds that do not comply with equivalent rules to a NURS. So apart from NURS real estate funds, we believe the other NURS funds most likely to be affected by the proposals are NURS FAIFs.

### Authorised AIFs

| NURS                                                                                                                                            |                                                                                                                                                                                                                         | QIS                                                                                          | LTAF                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FIIAs</b> (with at least 50% of value of scheme property in inherently illiquid assets)<br>Could include some FAIFs, depending on portfolio. | <b>Other NURS funds</b> (with below 50% of value of scheme property in inherently illiquid assets)<br>Could include some FAIFs, depending on portfolio.                                                                 |                                                                                              |                                                                                                                                                                         |
| The minimum redemption terms would be monthly dealing and 90 day notice period.                                                                 | Minimum redemption terms not specified, but AFM must ensure investment strategy, redemption policy and liquidity profile are consistent. This may mean the AFM still needs to restrict liquidity provided to investors. | AFM must ensure investment strategy, redemption policy and liquidity profile are consistent. | AFM must ensure investment strategy, redemption policy and liquidity profile are consistent. The minimum redemption terms are monthly dealing and 90 day notice period. |

## Proposals for the FIIA regime

**3.9** We propose to modify the existing FIIA regime. The rules on enhanced liquidity risk management and depositary oversight, among others, would continue to apply, but we are proposing some updates, such as to the FIIA risk warning.

**3.10** The current definition of a FIIA captures a NURS fund where:

- the fund's investment objectives and policy published in the instrument constituting the fund and the prospectus aim to invest at least 50% of the value of the scheme property in inherently illiquid assets, or
- regardless of what is stated in the investment objectives and policy, at least 50% of the value of the scheme property has been invested in inherently illiquid assets for at least 3 continuous months in the last 12 months.

- 3.11** The current definition excludes a NURS fund that has limited redemption arrangements that reflect the time typically needed to sell, liquidate or close out its inherently illiquid assets (limited redemption means the AFM redeems units less than twice a month).
- 3.12** The current FIIA definition is therefore designed to capture NURS funds with liquidity mismatch. So under the current definition a NURS fund that deals less frequently than twice a month is not a FIIA, even if 50% of the value of scheme property is invested in inherently illiquid assets.
- 3.13** We propose to remove this carve-out, so the existing redemption terms of a NURS fund would be irrelevant in assessing whether it is a FIIA. Whether a NURS fund is a FIIA would instead depend only on the composition of its portfolio.
- 3.14** We then propose to require AFMs of FIAs to introduce the following limited redemption arrangements:
- the AFM must not have more than one dealing day per month for redemptions; and
  - the notice period for redemption requests must start at least 90 days before the relevant dealing day.
- 3.15** We propose to add these new requirements for FIAs to a new rule (COLL 6.2.19AR) and apply them through the existing rule on limited redemption in COLL 6.2.19R. They will be the minimum redemption terms for a FIIA, so an AFM could restrict them further if appropriate for the fund. However, we propose a maximum redemption period of 185 days, in line with the existing rules for NURS funds with limited redemption arrangements and FAIFs (see Chapter 8).
- 3.16** We would refer to these minimum redemption terms as FIIA-prescribed limited redemption arrangements, to distinguish them from the terms other NURS fund managers may choose to implement.
- 3.17** In CP20/15 we proposed that:
- existing NURS real estate funds with limited redemption arrangements would not fall under the new rules and would not be classed as FIIPs; but
  - after our rules enter into force, all new NURS real estate funds, including monthly dealt, would be classed as FIIPs and would need to have notice periods.
- 3.18** Stakeholders pushed back on this distinction because of the perceived inconsistent treatment of funds based on when they entered the market.
- 3.19** We therefore propose to treat new and existing NURS funds the same way, although a two year implementation period would apply for existing NURS funds.
- 3.20** A small number of existing affected NURS funds already comply with the proposed FIIA-prescribed limited redemption arrangements.

**Question 2:** Do you agree that we should prescribe minimum redemption terms for all NURS funds with at least 50% of scheme property in inherently illiquid assets?

**3.21** For the rest of this paper, we refer to the NURS funds affected by our substantive proposals as 'FIAs'.

**3.22** We propose to amend the scope of the FIA regime by amending the Handbook definition to clarify what constitutes an inherently illiquid asset, as set out below.

### **Proposed amendments to the definition of an 'inherently illiquid asset'**

We propose to amend the following limbs of the existing definition. The full proposed definition can be found in the Appendix.

#### **(3) a transferable security**

Under the current definition, a transferable security is an inherently illiquid asset if it is neither:

- (a) a government and public security denominated in the currency of the country of its issuer;
- (b) a security which is listed or traded on an eligible market; nor
- (c) a newly issued security which can reasonably be expected to fall within (b) when it begins to be traded;

A NURS fund can have exposure to a transferable security if it:

- invests directly in one, or
- invests in a second scheme which itself is invested in transferable securities

**How we propose to change it:** Where the NURS fund invests directly in a transferable security or in a second scheme that is a NURS fund, we propose to replace limb (b) with a reference to a security which would be an approved security under COLL 5.6.5R (1). We think it is sufficient to rely on the existing COLL tests for an approved security, rather than having a separate test solely for the FIA regime.

In this way we want to make it clear that a transferable security is an inherently illiquid asset if a NURS fund manager would be required to hold it in the 20% unapproved securities bucket. This should make the assessment simpler for the fund manager.

We would therefore delete limb (c) (a newly issued security) as that would be captured by COLL 5.6.5R (1).

So under our proposed rules, a transferable security held in a NURS fund would be an inherently illiquid asset where it is neither:

- (a) a government and public security denominated in the currency of the country of its issuer; nor
- (b) a security which would be an approved security under;
  - (i) for a NURS operating as a FAIF, COLL 5.6.5R(1) as applied by COLL 5.7.3R(2); or
  - (ii) for a NURS not within (i), COLL 5.6.5R(1)

However, where a NURS fund invests in a second scheme that is not also a NURS fund, we propose to retain an amended version of the existing limb (b). That is because we do not think it would be appropriate to require an AFM to assess transferable securities held in a second scheme against COLL 5.6 if that scheme's manager has not itself assessed them against those tests. This is explained further under the relevant sections below for a unit in a QIS and an unregulated CIS.

#### **(6) a unit in a QIS**

Under the current definition, a unit in a QIS is an inherently illiquid asset if:

- (a) it would itself meet condition (1) of the definition of a FIIA if it were a NURS fund (the portfolio composition);
- (b) the AFM permits redemptions of units on timescales which do not reflect the time typically needed to sell, liquidate or close out the inherently illiquid assets in which it invests; and
- (c) it is not in the process of winding up or termination;

**How we propose to change it:** We propose to amend limb (a) so the test is whether the QIS aims to invest at least 50% of the value of scheme property in any of the other types of assets listed in the definition of an inherently illiquid asset. But in the case of transferable securities, we do not propose that the AFM of the NURS fund should assess them against COLL 5.6.5R.

Instead, we propose that transferable securities held in a QIS are inherently illiquid assets where they are neither:

- a) government and public securities denominated in the currency of the country of the relevant issuer;
- b) securities which are regularly traded on a market which would be an eligible market if the scheme were a NURS; nor
- c) newly issued securities which can reasonably be expected to fall within (b) within 20 business days of issue.

This therefore broadly retains the existing test for transferable securities under the FIIA regime, but emphasises that the AFM must consider whether the security is regularly traded – so it will have to think about the depth of secondary market liquidity.

Although we do not propose that the AFM assesses the securities in the second scheme as if they were approved securities held in a UCITS scheme or a NURS, we propose to link the definition of a transferable security in this context directly to COLL 5.2.7R rather than the definition in the Glossary which we think is a more accurate cross-reference.

In line with PS26/17, we would reduce the period in which recently issued transferable securities not admitted to an eligible market can be treated as if they were not inherently illiquid. The new period would be 20 business days instead of 1 year.

We propose to also make clear that a unit in a QIS is an inherently illiquid asset where it invests in second schemes which are (1) also QIS and (2) invest at least 50% of the value of the scheme property in inherently illiquid assets. This provision will apply to a feeder fund investing in a master QIS that itself invests substantially in inherently illiquid assets, including units of other schemes.

We propose to remove the reference to an AFM permitting redemptions of units on timescales which do not reflect the time typically needed to sell, liquidate or close out the inherently illiquid assets in which it invests. If a NURS fund invests in units of a QIS that in turn invests in inherently illiquid assets, we would treat a unit in the QIS as an inherently illiquid asset regardless of its redemption terms. If the QIS did not have a notice period, risks would arise for the NURS fund investing in it due to the liquidity mismatch. If the QIS did have a notice period, the NURS fund investing in it would still face a liquidity risk as it could not liquidate its holding until the end of the notice period.

#### **(6A) a unit in an LTAF**

Under the current definition, a unit in an LTAF is an inherently illiquid asset where:

- (a) it would itself meet condition (1) of the definition of a FIIA if it were a NURS fund; and
- (b) it is not in the process of winding up or termination.

**How we propose to change it:** We propose to delete limb (a) as we believe that a unit in an LTAF should always be treated as an inherently illiquid asset because of the minimum redemption terms which apply. So the portfolio composition would be irrelevant in determining whether a unit in the fund is an inherently illiquid asset.

#### **(7) a unit in an open-ended unregulated collective investment scheme (CIS)**

Under the current definition, a unit in an unregulated CIS is an inherently illiquid asset where the CIS:

- (a) aims to invest at least 50% of the value of scheme property in inherently illiquid assets;
- (b) permits redemptions of units on timescales which do not reflect the time typically needed to sell, liquidate or close out those assets; and
- (c) is not in the process of winding up or termination.

**How we propose to change it:** As for a QIS, we propose to amend (a) so that a unit in an open-ended unregulated CIS is an inherently illiquid asset if it aims to invest at least 50% of the value of scheme property in any of the other types of assets listed in the definition of an inherently illiquid asset, with the exception of transferable securities for which it would be subject to an amended version of the existing test.

We propose to also make clear that a unit in an open-ended unregulated CIS is an inherently illiquid asset where it invests in second schemes which are (1) also unregulated CIS and (2) invest at least 50% of the value of the scheme property in inherently illiquid assets. This provision will apply to a feeder fund investing in a master CIS that itself invests substantially in inherently illiquid assets, including units of other schemes.

As for a unit in a QIS, we also propose to remove the reference in (b) to permitting redemptions of units on timescales which do not reflect the time typically needed to sell, liquidate or close out the inherently illiquid assets.

#### **(8) a unit in a recognised scheme**

**3.23** For completeness, we would add to the definition of an inherently illiquid asset a unit in a recognised scheme that has at least 50% of the value of its scheme property in inherently illiquid assets.

**3.24** A unit in a recognised scheme would be an inherently illiquid asset where the fund:

- (a) aims to invest at least 50% of the value of scheme property in inherently illiquid assets;
- (b) is not in the process of winding up or termination.

- 3.25** As for a QIS, we propose that a unit in a recognised scheme is an inherently illiquid asset if it aims to invest at least 50% of the value of scheme property in any of the other types of assets listed in the definition, with the exception of transferable securities for which it would be subject to an amended version of the existing test.

## Derivatives

- 3.26** A NURS fund can invest in derivatives traded on an eligible derivatives market or an over-the-counter (OTC) derivative.
- 3.27** In the case of an exchange traded derivative, we would not expect there to be any significant liquidity risks given the typically strong liquidity of derivative markets.
- 3.28** We consider that the existing COLL rules minimise an OTC derivative's liquidity risk, as COLL 5.6.15R specifies that COLL 5.2.23R also applies to a NURS fund. COLL 5.2.23R(2)(b) permits a NURS fund to invest in an OTC derivative only where the terms allow the AFM to enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at its fair value. As such, even where the underlying of the OTC derivative is an illiquid asset, the AFM must still be able to close the position whenever needed.
- 3.29** However, theoretically, limb (4) of the definition of an inherently illiquid asset could capture some OTC derivatives; for example, where sale and purchase transactions are typically negotiated on a one-off basis. We believe it is unlikely that, even where this is the case, exposure to OTC derivatives would be the definitive factor in whether a NURS fund reaches the FIIA threshold.
- 3.30** Under COLL 5.6.13R(3), a transaction in a derivative must not cause a scheme to diverge from its investment objectives as stated in the instrument constituting the fund and the most recently published prospectus. So we also do not believe that an OTC derivative which had an illiquid asset as its underlying could be used as a means of preventing a NURS fund from becoming a FIIA.

## Transferable securities admitted to trading on an exchange

- 3.31** Inherently illiquid assets would therefore not include transferable securities which are admitted to trading on an exchange and satisfy the relevant COLL 5 tests to be an approved security.
- 3.32** Consistent with our existing requirements on liquidity risk management, the AFM must still consider the liquidity risks of less liquid transferable securities and factor these in to its liquidity risk management system.

**Question 3:** Do you have any comments on our proposed amendments to the definition of an inherently illiquid asset? For example, whether they are also appropriate for master-feeder arrangements.

## Retaining the 3-month buffer for hybrid funds

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- 3.33** Following CP20/15, several NURS real estate fund managers chose to move their funds to a hybrid investment strategy, reducing exposure to direct real estate below 50% of the fund's NAV.
- 3.34** We expect AFMs to calibrate their anti-dilution tools to reflect the costs of selling a vertical slice of the portfolio. By vertical slice, we are referring to the practice of meeting redemption requests through the sale of a cross section of the fund's portfolio, rather than relying solely on the most liquid assets (horizontal slicing). This means that, after the AFM has paid out the redemption, the composition of the fund's portfolio remains broadly unchanged. We acknowledge that not every transaction will be an exact vertical slice of the portfolio, and that the least liquid assets will likely take longer to sell. However, the estimated costs of selling these least liquid assets should still be factored into the calibration of the fund's anti-dilution tools.
- 3.35** With this in mind, if investors redeem a large amount of money, some NURS funds with a hybrid strategy may temporarily drift above the 50% FIIA threshold. However, a NURS fund only becomes classed as a FIIA if it goes above this threshold for at least 3 continuous months in the last 12 months.
- 3.36** We propose to retain the 3-month buffer, so in the case of a hybrid fund the AFM would have 3 months to bring the portfolio back within its intended liquidity allocations. In this way we propose to provide some flexibility to AFMs of hybrid funds, so that they do not drift in and out of the FIIA regime, and avoid a scenario in which some NURS funds spend significant periods of a year as FIIAs without having to comply with the requirements of the regime. We believe that this strikes the right balance.
- 3.37** If an AFM thinks there is a risk that the fund's portfolio would regularly exceed 50% threshold for substantial periods of the year, then we believe it should consider whether an alternative structure would provide greater consistency between the investment strategy, liquidity profile and redemption policy.

**Question 4:** Do you agree that the existing 3 month buffer works effectively for hybrid funds?

**Question 5:** Do you have any other comments on how the proposals may affect hybrid real estate funds?

## Restricting dealing days for FIIAs to once a month

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- 3.38** We propose to align the minimum redemption terms for a FIIA with those of an LTAF. We hope this consistency will help firms implement our proposals.
- 3.39** LTAF managers cannot redeem units more than once a month. We consider there are liquidity risk management benefits to restricting the number of dealing days in addition

to introducing a notice period. The combination of daily dealing and notice periods may make it more difficult for an AFM to manage their liquidity needs.

- 3.40** For example, if a fund has a quarterly dealing point and a minimum 3-month notice period, the AFM knows in advance all the liquidity demands it will need to satisfy at a specific dealing day and can sell property accordingly. If it deals daily with an equivalent notice period, the manager can accumulate a string of requests that correspond to consecutive dealing days. This leaves it less well placed to make strategic sales decisions.
- 3.41** We propose that the AFM of a FIIA must not have a dealing day for redemptions more frequently than once a month (proposed new COLL 6.2.19AR(1)).
- 3.42** In line with the LTAF rules, we do not propose to restrict how often FIIA managers can accept subscriptions. We believe that giving AFMs this flexibility is important for the investor base. However, if they accept subscriptions more frequently than redemptions then they would need to value the fund at each subscription point. We would be interested to hear whether AFMs think this is a desirable business model.

**Question 6:** **Do you agree that the dealing days for redemptions should be restricted for a FIIA? If so, is a maximum frequency of once a month appropriate?**

## Introducing a minimum 90-day notice period

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- 3.43** In CP 20/15 we consulted on a notice period of between 90 and 180 days. Since then, we have introduced the LTAF regime with a 90-day minimum notice period. We propose the same notice period for FIIAs (proposed new COLL 6.2.19AR (2)).
- 3.44** A small number of respondents to CP20/15 said the minimum notice period should be significantly longer than 180 days, to take account of the time it could take to sell illiquid assets such as real estate. In CP20/15 we referenced academic research on how long it takes to sell property assets, but acknowledged that it was dated and may not reflect modern systems or working practices. One paper noted that most properties are sold 60 to 90 days after they are marketed, although some respondents provided analysis that suggested it takes much longer.
- 3.45** We acknowledge that 90 days will not be enough to sell some of the more illiquid assets in a FIIA's portfolio, but this is the minimum notice period. AFMs would need to decide the appropriate terms for their fund, based on its investment objective, policy and strategy, and the reasonable expectations of the target investor group. We propose to add new guidance at COLL 6.2.20G(2)(b) and (c) which would make clear that:
- how frequently the AFM accepts redemption requests and the length of the notice period will depend on the reasonable expectations of the target investor group and the investment objective, policy and strategy of the fund; and
  - in deciding the redemption terms, the AFM should have regard to the obligation of a full-scope UK AIFM to ensure that the investment strategy, liquidity profile and

redemption policy of each AIF it manages are consistent (see Investment Funds sourcebook (FUND) 3.6.2R).

- 3.46** If an AFM intends to invest substantially in assets that would take more than 90 days to sell, we would not expect to authorise it with a 90-day notice period.
- 3.47** Some stakeholders would prefer us not to set a minimum notice period at all, leaving it to the AFM to set the period and be tested when it seeks authorisation of the fund. AFMs of illiquid NURS funds can currently operate limited redemption arrangements and notice periods, but very few do. As such, we do not believe the length of the notice period can be left entirely to the AFM's discretion. Where a fund has at least 50% of the portfolio in inherently illiquid assets, we do not think any notice period below 90 days would ensure consistency between the liquidity profile and redemption terms. So it is appropriate to reflect these minimum expectations in our rules.
- 3.48** To manage the liquidity of the fund effectively, most AFMs of LTAFs do not rely solely on the notice period and also use redemption gates. A redemption gate is where the AFM sets a maximum percentage of NAV that can be redeemed at each dealing day. They then apply this on a pro-rata basis to actual redemption requests, and defer any excess to the next dealing day. As we explain in Chapter 6, we also propose to allow AFMs of a NURS operating limited redemption arrangements, including FIAs, to defer redemptions to the next monthly dealing day.
- 3.49** For example, the AFM of a NURS operating limited redemption arrangements could defer redemptions where requests exceed 10% of the fund's value or some other reasonable proportion disclosed in the prospectus. However, this should be a complementary tool to the FIA-prescribed limited redemption arrangements. AFMs should not rely on deferrals as part of their day-to-day liquidity management.
- 3.50** The general rule for UCITS schemes and NURS funds is that the AFM must sell or redeem units at a price determined by the end of the business day after they receive and accept the instruction, or at the fund's next valuation point if this is later (COLL 6.2.16R(6)). When a fund has a notice period it can mean that the valuation point corresponding to a redemption request is not the fund's next valuation point, but several valuation points into the future. For example, the AFM of a monthly dealt fund with a 3-month notice period would redeem units at the third valuation point after it has accepted the request.
- 3.51** NURS funds operating limited redemption arrangements are already carved out of COLL 6.2.16R(6). Instead, COLL 6.2.16R(7) specifies that the AFM must sell or redeem units at a price determined no later than 185 days after it has received and accepted the instruction.
- 3.52** We propose to clarify that the AFM must determine the unit price at the first valuation point after the end of the notice period (proposed new COLL 6.2.16R(7)(b)). We do not believe that this would require a change for existing NURS funds operating limited redemption arrangements.

**Question 7: Do you agree that we should specify a notice period with a minimum length of 90 days for a FIIA?**

## **Widening the availability of limited redemption arrangements**

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- 3.53** Currently limited redemption arrangements are available to the AFM of a NURS fund where it:
- operates as a NURS FAIF;
  - invests substantially in real estate;
  - has an investment objective to provide a specified level of return.
- 3.54** We propose to permit the AFM of any NURS fund to introduce limited redemption arrangements where they believe that it would deliver better alignment between the fund's investment strategy, liquidity profile and redemption policy.
- 3.55** For NURS funds which fall below the 50% FIIA threshold we propose to rely on the existing principle-based rule which requires the investment strategy, liquidity profile and redemption policy of an AIF to be consistent.
- 3.56** So even if a NURS fund falls below the 50% threshold, the AFM may still need to restrict the liquidity it provides to investors and we want to make sure that they have the tools available to do so. In many cases we would still expect an AFM with material exposure to inherently illiquid assets, albeit below the FIIA threshold, to operate limited redemption arrangements. The difference would be that the AFM has greater discretion to decide what form the redemption terms take.
- 3.57** AFMs of NURS funds with material exposure to inherently illiquid assets should expect us to scrutinise their redemption terms in detail at the Fund Authorisations gateway, regardless of whether they meet the 50% threshold. They should be able to demonstrate the ongoing appropriateness of the dealing terms for the portfolio's liquidity. If the portfolio has exposure to inherently illiquid assets at a level close to 50%, the AFM should have good grounds for being confident that the fund's portfolio will not drift above the threshold for more than 3 continuous months in a year.
- 3.58** We therefore propose adding new guidance to COLL 6 to make clear that, even where a NURS fund is not a FIIA, it may still be appropriate to have limited redemption arrangements so that the AFM can effectively manage the fund's liquidity (proposed new COLL 6.2.20AG).
- 3.59** The greater use of limited redemption arrangements could also mean that AFMs of NURS funds can take greater exposure to less liquid transferable securities, such as small cap equities, which will in turn support UK growth markets. For this reason we think it is important that the UK fund sector moves away from daily dealing without a notice period being the default for retail funds.

**Question 8: Do you agree that limited redemption arrangements should be available at discretion to the AFM of any NURS fund that**

is not a FIIA?

## Alternative options

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**3.60** We have considered alternatives to mandatory notice periods and restricted redemption frequency for FIIAs, but do not believe that any would deliver the desired outcomes.

### Deferrals

**3.61** We know some stakeholders believe redemption deferrals offer advantages over fixed notice periods that may make them more attractive to investors. Those stakeholders would prefer us to give FIIA managers a greater deferral power with no compulsory notice period. For example, we could allow the AFM to defer redemptions by more than 100 days, as opposed to 1 day under the current rules for most NURS fund managers (although managers of NURS FAIFs can defer for substantially longer).

**3.62** The purported benefits of these extended deferrals would be that:

- the fund can calculate a daily NAV and accept subscriptions;
- investors can continue to submit redemption requests; and
- incoming investors can be matched with outgoing investors so they can receive their money back sooner than if there were a suspension, and potentially sooner than under a fixed notice period.

**3.63** We are concerned that this option could provide less certainty for investors. For example, with a notice period the investor knows how long they will need to wait. In a deferred redemption model the investor may presume that they would receive their money back in a matter of days, only to be told that the redemption will be deferred for months.

**3.64** This would not help investors understand the trade-offs of investing in illiquid assets. We believe that professional investors are more likely than less sophisticated retail investors to anticipate that an AFM would need to activate the deferral mechanism, so this option would not address the first-mover advantage risk.

**3.65** It is also uncertain whether the deferral model would be any easier to implement for platforms than mandatory notice periods, especially as distributors have told us they want dealing processes to be as consistent as possible.

**3.66** We believe that, although FIIA managers should be able to defer redemptions to manage liquidity, this tool alone does not mitigate the liquidity mismatch in these funds.

### Higher threshold for notice period

**3.67** As explained above, we propose to specify minimum redemption terms (the FIIA-prescribed limited redemption arrangements) for NURS funds with at least 50% of the value of scheme property in inherently illiquid assets.

- 3.68** Some respondents to CP20/15 said we should set a higher threshold – for example, 75%. A threshold of 75% would continue to capture most remaining direct real estate funds. But such a high threshold could give retail investors the impression that NURS funds with significant exposure to inherently illiquid assets – for example, around 50% – are generally liquid because they are not in scope of the FIIA regime so do not have notice periods.
- 3.69** Wherever we set the threshold, some AFMs will design the portfolios of their funds to fall below it. But the rule on consistency between liquidity profile, investment strategy and redemption terms applies to all NURS funds, regardless of their level of exposure to inherently illiquid assets.

### Requiring FIAs to become LTAFs

- 3.70** We have considered requiring FIAs to become LTAFs. This would mean there is only 1 authorised fund structure for retail investors to invest in inherently illiquid assets. This would simplify the authorised funds regime, but it is important to note that there are substantial differences between the NURS and LTAF rules. For example:
- only a full-scope AIFM can manage an LTAF;
  - an LTAF's investment powers are significantly wider than a NURS fund's (for example, an LTAF can invest in private credit); and
  - an LTAF does not have the same risk diversification and concentration rules as a NURS.

An LTAF is a Restricted Mass Market Investment (RMMI), unlike a NURS fund. Our proposed changes would not cause a FIIA to become an RMMI.

- 3.71** So, while requiring FIAs to become LTAFs could simplify the regime, we would restrict the choices available to retail investors. They would no longer be able to choose an authorised fund that offers exposure to more conventional illiquid assets, such as real estate, but with a lower risk profile than an LTAF. We believe that the FIIA structure should be a widely available option for retail investors who want some exposure to inherently illiquid assets, as an alternative to LTAFs.
- 3.72** From an implementation perspective, we believe that requiring FIAs to become LTAFs would be more burdensome for AFMs and others involved in their distribution than allowing them to remain as NURS funds but amending their redemption terms.
- 3.73** Nevertheless, we are open to feedback on how we might simplify the authorised funds regime, and if there are merits to providing only one authorised fund structure for retail investors to gain exposure to inherently illiquid assets.

### Exempting existing investors from the notice period

- 3.74** We have considered whether we could allow AFMs of FIAs to preserve the redemption terms for existing investors' holdings, and introduce the FIIA-prescribed limited redemption arrangements only for new investors. AFMs could potentially do this by issuing different classes of units in the same fund.

- 3.75** We acknowledge that this approach would benefit existing investors in FIIAs, but it would lead to substantially different treatment between existing and new investors. We do not see how the AFM could manage the liquidity risk of the fund to treat all investors fairly. It would need to retain the features of a daily-dealt fund just for the existing investors, and new investors would have the disadvantages of the current model (such as cash drag) without the benefit of quick liquidity.

### **Waiving the notice period**

- 3.76** We have considered whether we should permit the AFM to waive the notice period in exceptional circumstances. Some stakeholders have requested a similar power be given to AFMs of LTAFs, as investors may experience significant life events or unforeseen financial needs which necessitate quick access to their money. They argued that greater flexibility could be beneficial in such cases.
- 3.77** We recognise the importance of ensuring that retail investors can access appropriate sources of liquidity in unexpected circumstances. But investing in inherently illiquid assets involves a trade-off between access to longer-term assets and immediate liquidity. Investors who choose to invest in such funds should do so with an understanding of those trade-offs, and should maintain an appropriate level of liquidity elsewhere in their overall portfolio to meet short-term cash needs.
- 3.78** For these reasons, we do not propose giving AFMs the ability to waive the notice period. In practice, determining which life events or circumstances would qualify, evidencing those circumstances, and ensuring consistent application across AFMs, distributors and platforms would be very complicated. Such arrangements could be difficult to implement in a way that delivers consistent outcomes for investors.
- 3.79** We are also concerned that allowing some investors to redeem more quickly than others could create perceived unfairness between unitholders. This would sit uneasily with the principle that all investors in the same fund should be treated fairly and that redemption arrangements should operate consistently in the interests of all investors. In a pooled investment vehicle, assistance given with good intentions to one investor or group of investors may end up disadvantaging other investors who have no say in the matter.
- 3.80** On balance, we do not consider that the benefits of a waiver power outweigh the operational challenges and potential investor fairness concerns.

**Question 9:** **Do you have any comments on the alternative options set out above and our reasons for not proceeding with them?**

## Chapter 4

# Investor disclosures and communication

### Introduction

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- 4.1** It is crucial that retail investors understand a fund's redemption terms before they invest, so that they know how long they will need to wait to get their money back. We do not consider that a notice period makes a fund riskier for an investor. In fact, it is intended to make a fund investing in inherently illiquid assets a safer product.
- 4.2** Although the notice period may reduce the fund's liquidity risk, an investor must bear the market risk during the notice period. This gives rise to a new distinct risk of the fund's value fluctuating during the notice period, possibly to the investor's detriment.
- 4.3** It is therefore important that NURS funds with limited redemption arrangements, including FIAs, have clear and concise disclosures that allow retail investors to understand the trade-offs involved.

### Risk warnings

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- 4.4** In CP20/15, we proposed that in any financial promotion regarding an FPIP, the AFM must provide information on the following risks:
- investors in the fund will not have immediate access to their money;
  - it will take some time (the notice period) to determine the price of the units being redeemed;
  - once the AFM has accepted a redemption request, the investor cannot cancel it; and
  - the price of the units being redeemed may fluctuate during the notice period, and that this price difference could be significant.
- 4.5** We have since updated our regime for investor disclosures. Our new Consumer Composite Investment (CCI) regime as set out in the Product Disclosure sourcebook (DISC), has introduced a requirement for the manager of an illiquid fund (including a FIA) to add '1' to the risk score (DISC 5.6.5R (1)). Separately, for CCIs with low liquidity or that are not regularly priced, the manufacturer must also include a risk warning to that effect and explain that it may affect the retail client's ability to redeem or exit their investment (DISC 5.8.1R (10)). The product summary must also include any applicable risk warnings provided for in FCA rules (DISC 5.8.1R (15)).
- 4.6** DISC 5.8.2G says that an example of a risk warning in DISC 5.8.1R (15) is the risk warning in COBS 4.5.16R. This is the existing risk warning for FIAs.
- 4.7** Under COBS 4.5.16R, any financial promotion relating to a FIA except the prospectus must include the following risk warning:

"[Name of fund] invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document."

**4.8** We propose to update the existing FIIA warning, as it would no longer be appropriate to say that an investor may experience a delay. Where a NURS fund has limited redemption arrangements, we propose that in any financial promotion the AFM must explain in plain language the key features of investing in the fund:

- when investors request a redemption they will not receive their money until the end of the notice period; and
- investors will bear the market risk during the notice period, meaning the amount they receive may be less than when they requested the redemption.

**4.9** The AFM would have the flexibility to decide the exact wording, but they would need to ensure that it is prominent, taking into account the content, size and orientation of the financial promotion as a whole. As the existing FIIA warning is cross-referenced by the new CCI rules, the AFM would need to ensure that the product summary for a FIIA adequately explains the key features of a FIIA.

**4.10** We propose that the AFM of any NURS fund with limited redemption arrangements, even if it is not a FIIA, must also explain these features clearly to prospective investors. This is important as retail investors should understand they will experience a delay in receiving their money back, even though the portfolio is not illiquid to the same degree as a FIIA.

**4.11** As explained above, we propose that the FIIA-prescribed limited redemption arrangements do not become mandatory until 2 years after the rules are made. Nevertheless, in the interim we would expect that AFMs of FIAs make it sufficiently clear to prospective investors that the redemption terms will be changing. We do not propose to prescribe the precise manner in which this should be done, as we believe that AFMs should seek to do this in line with the consumer understanding outcome of the Consumer Duty.

**Question 10:** Do you have any comments on the amended risk warning?

**Question 11:** Do you agree that the warning should apply to all NURS funds with limited redemption arrangements, rather than only FIAs?

## Prospectus disclosures

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**4.12** Similarly to CP20/15, we propose to update the prospectus requirement in COLL 4.2.5R for all NURS funds with limited redemption arrangements, including FIAs.

**4.13** Under COLL 4.2.5R(17), a NURS fund manager must already explain the circumstances and procedures for limiting or deferring redemptions. We propose to require them to also explain:

- how long a unitholder will normally need to wait to receive the proceeds after the AFM accepts its instruction to redeem units in the fund, including any notice period or cut-off point;
- (if applicable) when the AFM may defer a redemption or payment, and that the AFM may limit the amount that can be redeemed, along with what this means for the unitholder;
- that the AFM may extend the notice period when dealings in units are suspended.

**4.14** This amended rule would apply to all NURS funds with limited redemption arrangements, rather than just FIAs. However, we consider it likely that AFMs of NURS funds that already have these arrangements should not need to change their prospectuses substantially, if at all.

**Question 12:** Do you agree that we should amend the prospectus disclosure requirement for all NURS funds with limited redemption arrangements, rather than only FIAs?

## Approvals and notifications

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**4.15** The introduction of limited redemption arrangements is currently treated under COLL 4.3.4R as likely to be a fundamental change (see COLL 4.3.5G(2)(f)). This means that the AFM needs to obtain prior approval from a meeting of unitholders, as it changes the way investors can exit the fund.

**4.16** However, where the AFM of a FIA would be required to introduce FIA-prescribed limited redemption arrangements, we propose that this event is instead treated as a significant change not requiring prior unitholder approval. This is because the change would not be the AFM's choice. The AFM will still need to communicate it adequately to:

- existing investors; and
- new investors who want to enter the fund during the implementation period.

**4.17** We propose that AFMs give at least 1 year's notice to existing investors of this significant change. This is a transitional provision that applies only to AFMs of existing NURS funds.

**4.18** We then propose that, following the introduction of limited redemption arrangements, or in the case of existing NURS funds with limited redemption arrangements, if the AFM intends to make any significant changes unrelated to the redemption terms, the prior notice it gives to investors about the changes must be no less than 60 days plus the length of the notice period. The minimum period that must be given to investors ahead of significant changes to the fund is distinct from the notice period that applies to redemptions.

- 4.19** This minimum period is intended to give investors adequate time to consider any significant changes and decide whether they want to remain invested, ahead of the cut-off point for the next dealing day for redemptions. We propose this for all NURS funds with limited redemption arrangements, including FIAs.

**Question 13:** Do you agree with our proposed approach to fundamental and significant changes for NURS funds with limited redemption arrangements?

## Chapter 5

# Suspensions

### Introduction

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- 5.1** Although our proposals are intended to make a suspension of dealing less likely, there may still be circumstances where it is in unitholders' best interests. For example, the rule requiring suspension in the case of material valuation uncertainty under COLL 7.2.-3R would continue to apply to all NURS funds, regardless of whether they are FIAs.

### Approach to suspensions

- 5.2** In CP20/15 we proposed that:
- during a suspension of dealing, an AFM could not permit an investor to revoke a redemption request they placed before the suspension; and
  - investors would be permitted to place redemption requests during a suspension to initiate a notice period, although they would not be able to purchase units; and
  - the period during which dealing is suspended would count towards completion of the notice period, though redemptions would not occur until the suspension ends.
- 5.3** We received feedback that AFMs do not normally accept redemption requests during a suspension and are not operationally set up to do so. Respondents noted that this would be a departure from COLL 7.2.1R(3)(a), which says that none of the obligations in COLL 6.2 apply during a suspension. We also received feedback that platforms' systems and processes do not enable them to accept redemptions requests during fund suspensions.
- 5.4** We considered this. Our proposed changes to suspension rules would apply to NURS funds with limited redemption arrangements, including FIAs. We propose that, if an investor wants to revoke a redemption request during a suspension, this would be subject to the conditions we explain in paragraphs 8.9-8.13 for the revocation of redemption requests more generally.
- 5.5** However, we propose to maintain our 2020 position that the AFM must accept a redemption request made after the start of the suspension unless it has reasonable grounds to refuse (proposed new COLL 7.2.1-A R (2)), although it could not execute dealing requests. Firms will have to make changes to their platform infrastructure to implement our proposals and we believe this is a change that could be made at that point. We welcome feedback on whether accommodating redemption instructions during a suspension would create a material burden beyond the other changes required to accommodate funds with notice periods.
- 5.6** We also propose to maintain the 2020 position that the time during which dealing is suspended should count towards the notice period (proposed new COLL 7.2.1-AR (3)), as otherwise it could be unfair to make an investor wait for a further 90 days after the

manager lifts the suspension. If the suspension continues beyond the end of the notice period, the AFM must determine the price for the units at the first valuation point after the restart of dealings (proposed new COLL 7.2.1-AR(4)).

**5.7** We also propose to delete the existing guidance provision at COLL 7.2.2G(1B). COLL 7.2.2G(1A) states that, except in the case of FIIAs, difficulties in realising scheme assets or temporary shortfalls in liquidity may not be enough on their own to justify suspension. In such circumstances the AFM and depositary would need to be confident that suspension is genuinely in the best interests of the unitholders. But COLL 7.2.2G(1B) suggests that this standard is lower for FIIAs and states that there may be circumstances where suspension is genuinely in the best interests of unitholders. For example, where orders received for redemptions of units at the next valuation period cannot be executed without significantly depleting the scheme's liquidity, and/or without selling scheme property at a substantial discount to its open market value.

**5.8** We think this exception for FIIAs is no longer appropriate if the FIIA-prescribed limited redemption arrangements apply. The current guidance makes sense in a situation where FIIAs can be daily-dealt without notice periods and the AFM maintains a cash buffer. In such cases, suspension may be an appropriate alternative to a fire-sale of inherently illiquid assets. But if we introduce FIIA-prescribed limited redemption arrangements, FIIAs should be broadly in the same position as other funds. This means short-term liquidity shortfalls or difficulties in realising assets quickly should not normally be enough by themselves to justify a suspension.

**Question 14: Do you agree that:**

- **an AFM of a NURS fund with limited redemption arrangements should be required to accept redemption requests during a suspension; and**
- **the period during which the fund is suspended should count towards the notice period?**

**Question 15: Do you agree that these additional requirements for suspensions should apply to all NURS funds with limited redemption arrangements, rather than only FIIAs?**

## Chapter 6

# Deferrals

### Introduction

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- 6.1** Currently, the AFM of a UCITS scheme or a NURS that has at least 1 valuation point on each business day may defer redemptions to the next valuation point. This applies if requested redemptions exceed 10% of the fund's value, or some other reasonable proportion disclosed in the prospectus (COLL 6.2.21R). In practice, this means that the AFM can defer redemptions by 1 business day.
- 6.2** The exception is that AFMs of NURS FAIFs can defer to a following valuation point as long as it complies with the 185-day settlement limit. This gives them significantly more flexibility to use deferrals.

### Approach to deferrals

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- 6.3** We propose to extend this greater deferral power to all NURS funds with limited redemption arrangements by amending COLL 6.2.21R. We believe this is important as, otherwise, NURS funds operating limited redemption arrangements but which are not FAIFs would not have a deferral mechanism. This also responds to industry feedback to CP20/15 asking for more flexibility in the deferral rules for illiquid NURS funds.
- 6.4** At this stage we do not propose amending the deferral rules for UCITS schemes, or NURS funds that do not operate limited redemption arrangements, such as those invested predominantly in liquid assets (such as NURS equity or bond funds).
- 6.5** While we are always open to suggestions on how we can enhance AFMs' liquidity management toolkits, we do not see a current need to allow AFMs of UCITS schemes and liquid NURS funds to be able to defer for longer periods of time.
- 6.6** We propose to maintain the existing position in COLL that the procedures for any deferral of redemptions must ensure the consistent treatment of all investors who have requested to redeem at that valuation point. AFMs must complete all deals relating to an earlier valuation point before considering those relating to a later valuation point.
- 6.7** We also propose to clarify that the reference to 'a following valuation point' is:
- (a) in relation to a FAIF which does not operate limited redemption arrangements, a valuation point no later than 1 month after the valuation point at which the request should have been carried out; and
  - (b) in relation to any NURS fund which operates limited redemption arrangements, the next valuation point which must be at least 1 month after the valuation point at which the request should have been carried out.

- 6.8** The reason is to clarify that, although the AFM of a FAIF or a FIIA would be allowed to defer for up to 185 days, they should still aim to execute the redemption as soon as reasonably practicable. So, in first instance, they should not defer by longer than a month. But an AFM would be able to defer again if it was still unable to satisfy the redemption request at the next valuation point.
- 6.9** We are also aware that long deferrals can be difficult for platforms to accommodate. This is an existing issue for LTAFs and we understand that interested parties are working to resolve it.

**Question 16:** Do you agree that the existing deferral power available to NURS FAIFs should be extended to all NURS funds with limited redemption arrangements?

## Chapter 7

# Operational challenges for intermediaries

### Introduction

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- 7.1** In response to CP20/15, stakeholders expressed concern that the wider market that supports and distributes funds was not operationally ready for notice periods. This included platform providers' and advisers' systems. Retail platforms have made some progress since then, particularly after we introduced the LTAF regime. There are still significant challenges, but we do not believe that this should stop us addressing the liquidity mismatch in FIIAs. Platforms and other intermediaries must adapt to cater for up-to-date rules.

### Investment platforms

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- 7.2** An increasing number of platforms are planning to make the changes they need to accommodate LTAFs. From a recent firm survey, we understand that some already offer them and a small number intend to in the coming year. But we know that challenges remain, including that:
- the notice period complicates and delays transfers between platforms;
  - long deferrals in funds with notice periods like LTAFs often require a manual solution behind the scenes to provide a smooth service to retail investors;
  - switching options would be less attractive to investors wishing to switch out of a fund with a notice period and into one without, because the switch could not be effected until the end of the notice period (and the prices of either fund or both might move unfavourably for the investor in the meantime); and
  - it is more challenging to include funds with notice periods in model portfolios as the provider cannot rebalance the portfolio quickly.
- 7.3** Competition in the interests of consumers should enable retail investors to choose from a broad range of funds as part of a diversified investment proposition – including FIIAs. It is also important for long-term economic growth that retail investors can choose productive assets, which includes both FIIAs and LTAFs.
- 7.4** This will require investment into infrastructure and industry-led consensus, which we are willing to support where possible.
- 7.5** Since we published CP20/15, we have regularly engaged with the platform industry to help overcome the obstacles to distributing funds with notice periods. This includes taking an active role in the Productive Finance Working Group.
- 7.6** We recognise that several recent regulatory changes are already causing many platform providers to dedicate significant resource to updating their systems and processes.

We are very conscious of the additional time and cost involved in offering funds with notice periods. We want to work closely with the industry to minimise the burden wherever possible.

### **Possible impact on retail investors**

- 7.7** We believe that illiquid assets, including real estate investments, can form part of a retail investor's diversified portfolio.
- 7.8** Some retail investors may choose to reduce their holdings due to the reduced flexibility associated with notice periods. But they would need to weigh this against the benefits of open-ended real estate funds. In response to CP20/15, many advisers said that NURS real estate funds provide important diversification in a portfolio, mitigating some of the volatility risk of equities and bonds. For some investors, the notice periods may be largely irrelevant given their long-term investment plans. Others may consider daily liquidity to be important and reallocate their investment.
- 7.9** For investors without financial advisers, we do not think the notice period means a FIIA is inappropriate by default. But it is important that they can make properly informed decisions, so firms should ensure consumers have the right information to understand the terms of the investment. This is in line with the consumer understanding outcome of the Consumer Duty.
- 7.10** For other investors, their financial adviser should take their unique circumstances into account, including their long-term investment horizons and how likely it is that they will need quick access to their money.
- 7.11** A unit in an LTAF is included in the list of RMMIs, but we do not believe we need to take the same approach for FIIAs. We do not treat LTAFs as RMMIs solely because of their more restrictive dealing terms; they also have significantly wider investment powers compared to a UCITS scheme or a NURS. As we discuss in paragraphs 3.70-3.73, we believe we should maintain a distinction between a NURS fund invested in inherently illiquid assets and an LTAF.
- 7.12** We are aware of previous concerns that notice periods would need 2-step financial advice (one piece of advice to redeem and another once the investor knows their redemption amount). As we do not consider the affected funds to be particularly volatile, we do not expect this to cause any significant difficulties for financial advisers. The potential difference in price between request and redemption is an inherent feature of investing in illiquid assets.
- 7.13** A firm distributing units in FIIAs will need to consider whether they are complex or non-complex products on a case-by-case basis. This is already the case. We propose to require minimum redemption terms for FIIAs because we want to provide a more sustainable structure for investment into inherently illiquid assets, so it is clear from the outset how long an investor will need to wait to receive their money back. We do not believe a notice period in itself should cause a firm to conclude that a FIIA is automatically a complex product. In our Discussion Paper on Expanding Consumer Access to Investments ([DP25/3](#)) we asked for feedback on the rules on Appropriateness

Assessments in COBS 10/10A and COBS 4.12A. We will shortly publish a feedback statement which summarises stakeholder responses and sets out next steps.

**Question 17: Do you agree with our assessment of the impacts on retail investors? Do you see any other ways in which limited redemption arrangements could affect how intermediaries and financial advisers interact with FIIAs?**

## Model portfolios

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- 7.14** We understand from feedback to CP20/15 that including funds with notice periods in model portfolios means a wealth adviser cannot quickly rebalance the portfolio to adjust allocations or sell holdings. Based on our internal analysis, we understand that some model portfolio providers rebalance their portfolios quarterly – so they could theoretically include a fund with a notice period.
- 7.15** Some model portfolios currently hold LTAFs with the requisite notice period. Given that, like LTAFs, FIIAs would be long-term investments, we do not expect that there would be a need for immediate liquidity from these funds. Firms should take into account that these funds are intended to be long-term investments, so may not be appropriate for regular rebalancing.
- 7.16** We recognise that funds with notice periods will require firms to update their processes and find innovative solutions, meaning additional costs. Some may consider it easier to swap a FIIA for a fund with no notice period but similar exposure. However, they would need to think carefully about whether the exposure is equivalent for an investor. For example, real estate securities may not be an appropriate replacement for direct real estate.

## SIPP operators

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- 7.17** Many people invest in these funds through their self-invested personal pensions (SIPPs). A SIPP operator is required to hold adequate capital, in the event that it seeks to close to new business and run off, or transfer its book of pension schemes to another administrator.
- 7.18** The amount of capital that a SIPP operator must hold is determined by the nature of the assets that it administers. The risk that an operator may not have sufficient financial resources is not immediately apparent to consumers when they set up a SIPP plan. Nor is the ongoing risk that the operator may fail in the future, when the consumer has less time to rebuild their pension assets. This undermines market confidence and can cause significant consumer harm. If SIPP operators do not hold adequate capital there is a significant risk that investors can end up funding an administration out of their own pension assets.

- 7.19** In CP20/15 we said that mandatory notice periods for some NURS funds would mean that they will not be readily realisable within 30 days, so SIPP operators may need to hold more capital.
- 7.20** To avoid a capital surcharge for SIPP operators that manage existing client plans with NURS real estate funds, we proposed a transitional rule in CP20/15:
- SIPP operators administering existing plans before the notice periods entered into force could continue to treat those units as if they could be readily realised within 30 days; and
  - where the SIPP operator had reason to believe that those investments would take more than 30 days to realise due to other factors, they should continue to treat the assets as non-standard in the usual way.
- 7.21** We have since had representations that the capital surcharge is not proportionate for UK authorised funds with notice periods on the basis they have a different risk profile from other non-standard assets, and the funds themselves adhere to strict product regulation and are authorised by the FCA. By addressing the liquidity mismatch in FIIAs, our proposals are intended to make these funds safer and more suitable products for retail investors, so we invite feedback on whether it is justified to retain the capital surcharge for any units in FIIAs, or other authorised funds with notice periods, newly added to SIPPs.
- 7.22** The nature of these investments as UK authorised funds subject to comprehensive product regulation could mean that there are not the same difficulties in transferring an investor's holdings to another operator in the event of a firm failure. But we know that at the moment not all platforms support these funds, so the risk of not being able to transfer may remain. We are also interested in understanding if treating authorised funds with notice periods as standard as opposed to non-standard assets for SIPP capital requirements may change the market and help retail investors obtain greater exposure to long-term productive assets as part of their retirement planning.
- 7.23** We would consult separately on this. However, in the meantime, we are proposing a transitional provision for existing FIIA units held within SIPPs. This is intended to give certainty to firms that they can continue to treat these units as standard assets for prudential purposes for 3 years, ahead of a consultation on broader rule changes.
- 7.24** On 22 June 2026 we published [CP26/20: Adapting our rules for a changing market: self-invested personal pensions](#). We explained that SIPP operators have an important role to play in ensuring the investments they offer to consumers do not expose them to scam or fraud risks, and to deliver good outcomes for consumers. SIPP operators must act with due skill, care and diligence.
- 7.25** Our proposals in CP26/20 are intended to make due diligence more consistent across the market, preventing consumer harms from assets that expose them to undue risk. Under these proposals, SIPP operators must do core due diligence checks on 'a unit in any regulated collective investment scheme, including, for avoidance of doubt, a long-term asset fund'. A fund's redemption terms would therefore not affect the level of due diligence.

**Question 18:** Do you agree that we should review whether authorised funds with notice periods should be treated as non-standard assets for SIPP purposes?

**Question 19:** Do you consider that minimum redemption terms for FIIAs may create other obstacles to their inclusion in SIPPs, including transfers between SIPP operators?

## Unit-linked policies

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- 7.26** In CP20/15 we explained that many unit-linked life assurance contracts offer investment into daily-dealing authorised real estate funds. For these specific contracts, insurance firms would need to decide how to process transactions. Although our proposals would not apply directly to unit-linked policies that reference FIIAs, an insurer exposed to the underlying fund would need to decide whether to continue to permit its policyholders to buy and sell holdings on the current terms. The insurer would take the risk that the price would change during the notice period. Alternatively, those firms might decide to change the terms and conditions of their insurance contracts.
- 7.27** We received mixed feedback on this point. Some thought that notice periods would increase complexity for unit-linked products, due to the balance-sheet implications of providers taking on a potentially uncertain amount of liability during the notice period. Respondents said that in some instances, the insurer would need to pay out a set amount at the beginning of the notice period without knowing the final redemption value. Respondents argued that the insurer taking on market risk went against the original objective of unit-linked products, where investors bear the market risk.
- 7.28** We also received feedback that, as real estate funds are not typically volatile products, the market risk during the notice period would probably be minimal compared with the overall size of the insurer's balance sheet.
- 7.29** Given the history of long suspensions in the NURS real estate sector, we anticipate that many insurers would already factor in the liquidity risk of these funds when they offer unit-linked policies and would not presume guaranteed daily liquidity. We welcome views from unit-linked providers, including providers of pension products held in unit-linked wrappers, on the likely impact of these proposals.
- 7.30** More generally, we are open to feedback on the rules for permitted links in COBS 21, which we may review in future.
- 7.31** In this consultation, we do not propose any changes to the permitted link rules in COBS 21. A NURS fund with a notice period would be treated as a permitted link, whereas an LTAF would only be a conditional permitted link, with the restrictions that then apply (for example, the 10% limit in COBS 21.3.16A). That is because, under COBS 21.3.1R (2)(g), 'permitted scheme interests' are defined as including 'an authorised fund, except a long-term asset fund'. An LTAF is only included as a conditional permitted link under COBS 21.3.15R (5).

**7.32** We do not propose to introduce any new restriction on a FIIA being used as a permitted link.

**Question 20:** Do you agree that a FIIA should not be treated as a conditional permitted link?

## Chapter 8

# Other changes

- 8.1** In this chapter, we propose additional changes to how AFMs of NURS funds with limited redemption arrangements and NURS FAIFs manage the redemption process.

### Shortening the valuation deadline to 182 days

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- 8.2** We propose to shorten the valuation deadline for NURS funds in COLL 6.2.16R(7) from 185 to 182 days and clarify the settlement deadline.
- 8.3** Currently, where a NURS fund has limited redemption arrangements, the AFM must determine the unit price no later than 185 days after accepting an instruction to sell or redeem. This includes where the AFM has deferred the redemption. Under COLL 6.2.16R(5A), where a NURS FAIF has limited redemption arrangements, the AFM must also pay the unitholder no later than 185 days after accepting the instruction.
- 8.4** We believe these rules could be clearer. We propose to amend them so that:
- 8.5** **The 185-day settlement limit in COLL 6.2.16R(5A) applies to NURS funds operating limited redemption arrangements, rather than only NURS FAIFs.** We do not consider that clarifying the maximum time for redemption is a material change for existing NURS funds with limited redemption arrangements.
- 8.6** That is because, although COLL 6.2.16R(5A) only applies to NURS FAIFs currently, COLL 6.2.19R(2) separately states that any fund with limited redemption arrangements must provide for sales and redemptions at least once every 6 months. We believe that this rule, combined with the maximum valuation deadline, means that the gap between accepting the request to redeem and paying the proceeds already cannot be longer than 6 months for NURS funds operating limited redemption arrangements, regardless of whether it is a NURS FAIF.
- 8.7** **AFMs of NURS funds operating limited redemption arrangements, including a NURS FAIF, must determine the price no later than 182 days after the instruction to redeem,** to allow time for settlement before the 185 day limit is reached. We would do this by amending the existing rule in COLL 6.2.16R(7). Under the existing 185-day rule, AFMs must in practice set a valuation point at least a few days earlier to allow enough time to calculate the price, execute the deal and pay the proceeds. Therefore, we do not believe that shortening the valuation deadline to 182 days should cause any issues for these firms.
- 8.8** The AFM of a NURS fund with limited redemption arrangements, including a FIIA, would therefore be able to decide notice and settlement periods that are appropriate for the fund and its investors, within these limits. AFMs of FIAs must also comply with the minimum requirements under the FIIA-prescribed limited redemption arrangements.

**Question 21:** Do you agree that 185 days is still an appropriate maximum time for AFMs of a NURS fund with limited redemption arrangements to pay the unitholders the proceeds of a redemption?

## Allowing limited revocations of redemption requests

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- 8.9** When the AFM accepts a redemption request, a contract is made between the investor and the AFM. If the investor wants to revoke the request, they would need to agree this with the AFM. The AFM should consider whether this would be fair to all investors in the fund before deciding whether to allow the revocation.
- 8.10** However, in CP20/15, we proposed that a redemption request would be irrevocable once an FPIP manager had accepted it. This would stop investors placing orders and withdrawing them before the end of the notice period if market conditions change. We also saw a risk that some investors might circumvent the notice period by continually submitting and then cancelling requests, so that they had the option to redeem just in case they needed the liquidity. Both scenarios could disadvantage remaining investors if the AFM has already started to sell scheme property. But some respondents to CP20/15 believed that we should give investors and AFMs more flexibility.
- 8.11** We have taken this feedback on board and have amended our approach; we now propose to permit revocations in certain cases.
- 8.12** In the case of a NURS with limited redemption arrangements, we believe that revocations pose greater risks for the remaining investors, as the AFM is more likely to have incurred costs from selling illiquid assets. As such, we propose to introduce a new rule (COLL 6.2.16R(3B)) which would state that a redemption request is irrevocable unless the AFM agrees and is satisfied that revoking it would not prejudice the interests of other investors in the fund. We also propose extending this change to LTAFs.
- 8.13** In practice, we expect the AFM to specify a period after which the redemption request could not be cancelled.

**Question 22:** Do you agree that AFMs should be able to allow investors to revoke redemption requests in a NURS fund with limited redemption arrangements, subject to the relevant test?

## Dilution

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- 8.14** As set out in PS26/17, AFMs of UCITS schemes and NURS funds must have policies and procedures to identify dilution in the scheme, and an anti-dilution mechanism to protect the investors' interests. In PS26/17 we said that, where NURS funds are invested in inherently illiquid assets, the nature of the portfolio means the AFM may manage short-term liquidity through the most liquid assets. However, any dilution adjustment or spread should capture an assumed cost of trading exposures in illiquid assets, even if the AFM

does not immediately sell these assets to meet redemption requests. That is because the AFM must maintain the scheme's liquidity profile, so must bring the portfolio back within its allocated liquidity buckets within a reasonable period.

- 8.15** We believe that redemption terms that reflect a portfolio's liquidity would mean AFMs would not need to rely as heavily on a liquidity buffer. This is because the notice period should reflect the AFM's estimate of how long it would take to sell a representative sample of the portfolio. This should also help the AFM to calibrate its anti-dilution mechanism, as it will not have to make assumptions about the costs of selling illiquid assets in the way it would in a daily dealing fund.
- 8.16** While we consider that reducing liquidity mismatch will help to mitigate the effect of dilution, we recognise that AFMs of FIIAs may need to adapt their approach to accommodate a notice period.
- 8.17** For example, if redemption requests are subject to a notice period and subscriptions are not (or subscription and redemption requests are received at different frequencies), it would not be practical for the AFM to net off subscription and redemption requests in the usual way. We believe it should still be possible for an AFM to carry out some netting off between subscription and redemption requests.
- 8.18** But we would not allow the AFM to waive the notice period in this situation. If we did, some investors could receive the redemption proceeds before the end of the minimum notice period; we believe this would create uncertainty for investors and a perceived unfairness if some investors were allowed to avoid the notice period and others could not.

**Question 23: Do you foresee any additional obstacles to operating and calibrating anti-dilution tools in a NURS fund with a notice period?**

- 8.19** We also propose a number of minor or consequential changes to the COLL sourcebook, which are set out below.

### **Instrument constituting the fund**

- 8.20** We propose to make a small change to COLL 3.2.6R(13) to specify that, where the AFM sets out the restrictions which will apply in relation to the sale, issue, cancellation and redemption of units in the instrument constituting the fund, they should also take account of any limitation under COLL 6.2.18R (Limited issue), COLL 6.2.19R (Limited redemption) and COLL 6.2.21R (Deferred redemption).
- 8.21** Where AFMs of FIIAs are required to introduce FIIA-prescribed limited redemption arrangements, they would need to update the instrument in any case, so we do not consider that this would place an additional burden on firms. Where AFMs of NURS funds which will not be FIIAs already have limited redemption arrangements and/or deferral mechanisms available, we expect that these would already be set out in the instrument. So we believe there should not be a need for AFMs of NURS funds which are not FIIAs to update a fund's instrument to comply with this amended rule.

## NURS FAIFs

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- 8.22** We propose to make some small consequential changes to the rules in COLL 5.7 for FAIFs investing more than 50% of the value of scheme property in units in LTAFs.
- 8.23** Currently, these FAIFs must operate limited redemption arrangements that enable them to:
- comply with their obligations in respect of redemptions; and
  - reflect the LTAF's liquidity profile and redemption terms.
- 8.24** We propose to align this rule with the revised FIIA regime, which would apply to all NURS funds including some NURS FAIFs. We propose that a relevant NURS FAIF must have FIIA-prescribed limited redemption arrangements if at least 50% of the value of scheme property is invested in any inherently illiquid assets, not just units in LTAFs.

## 'Dealing day' definition

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- 8.25** We propose to amend the existing definition of 'dealing day', as it presumes that the fund is dealt on every business day. Even without our proposed changes for FIIAs, the existing definition of dealing day does not sit easily with some of the existing rules, since it is used in COLL 8 for QIS and COLL 15 for LTAFs. Many QIS will not be daily dealt, and no LTAFs will be.
- 8.26** The proposed amended definition would be:
- 'a business day specified in an authorised fund's prospectus on which there is at least one valuation point for the purpose of issuing, selling, redeeming or cancelling units in the scheme'.*
- 8.27** This would account for a daily-dealt fund with a valuation point on each business day, and a limited redemption NURS fund with limited valuation points that are not on every business day.
- 8.28** The definition would also take account of the wider changes made to COLL to accommodate the 'Direct-to-Fund' dealing model.

## Possible additional changes for monthly-dealt funds

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- 8.29** We have considered whether we could update any other aspects of COLL to better accommodate monthly-dealt funds. We have not identified any clear obstacles, but the number of monthly-dealt funds is small. We would welcome feedback on whether there are any other rules that do not fit well with a monthly-dealt fund.
- 8.30** One area we would particularly like to hear about is the rules on winding up an authorised fund. COLL 7.3 to COLL 7.6 set out the rules AFMs must follow when winding up a fund or terminating a sub-fund. This process includes producing a solvency statement which

must relate to the fund's affairs, business and property at a date no more than 28 days before the date on which the AFM gives the notice to the FCA. We understand that this may be more difficult to comply with for monthly-dealt funds, particularly if the NAV finalisation process takes several weeks to complete.

- 8.31** We would be open to considering changes to this rule as part of the second consultation on the UK AIFM regime, within the constraints of legislation and wider solvency law considerations.

## Changes to the LTAF regime

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- 8.32** In the same way we have proposed for NURS funds with limited redemption arrangements, we would allow an investor in an LTAF to cancel a redemption request once the AFM has accepted it. This would be subject to the same proposed test that the AFM agrees and is satisfied that doing so would not prejudice other investors in the scheme. We propose to do this by amending COLL 15.8.12R(2)(e).
- 8.33** We also propose making some small consequential changes to COLL 15 to account for the Direct-to-Fund dealing model within an LTAF. These are independent of our work on NURS funds invested in inherently illiquid assets.
- 8.34** In PS26/7 we made changes to COLL to accommodate an optional new Direct-to-Fund dealing model, available to all authorised funds.
- 8.35** In the new direct dealing model, the fund or its depositary acts as principal in unit deals with end investors, rather than the AFM.
- 8.36** As we explained in CP25/28, this additional flexibility and choice will allow AFMs to decide the most efficient dealing model for a given fund and its investors and distribution channels.
- 8.37** We are taking the opportunity to make additional changes to COLL 15 to facilitate the Direct-to-Fund model in an LTAF, in line with the changes we made earlier this year in PS26/7.

**Question 24:** Do you have any comments on our proposed minor and consequential changes?

## Chapter 9

# Discussion on tokenisation and funds invested in inherently illiquid assets

- 9.1** We recognise that developments in tokenisation, distributed ledger technology (DLT) and digital market infrastructure may, over time, change how investors access liquidity in funds invested in inherently illiquid assets. We are exploring these developments through our wider work on tokenisation and wholesale markets. We expect to consult further on related issues in future, following ongoing engagement with industry and reflecting wider feedback we received on [CP25/28: Progressing Fund Tokenisation](#).
- 9.2** For the purposes of these proposals, we do not consider that tokenisation – the digital representation of assets on DLT – changes the fundamental liquidity characteristics of inherently illiquid assets. For example, tokenising an interest in real estate does not change the time it takes to sell the underlying property. We continue to consider that a NURS fund's redemption terms should reflect the liquidity of its assets.
- 9.3** Nevertheless, tokenisation may create new ways for investors to access liquidity. Secondary markets may develop where investors can buy and sell digital units between themselves, rather than relying solely on subscriptions and redemptions with the fund. This could mean investors can realise value by transferring their interests to other investors without needing an AFM to sell underlying assets. In theory, this might reduce pressure on fund-level liquidity management, and give investors seeking liquidity new options. But we would also need to consider the risks this could create and ensure that appropriate safeguards are in place. For example, where an investor could choose between redeeming their units at NAV or to receive their money back more quickly, selling their units on a secondary market at a lower price.
- 9.4** Over time, this may blur some of the traditional distinctions between open-ended and closed-ended structures. A tokenised fund investing in inherently illiquid assets could exhibit characteristics more commonly associated with exchange-traded products. These provide liquidity through secondary market trading, rather than exclusively through fund redemptions.
- 9.5** Tokenisation may also bring new approaches to managing liquidity risk. Greater transparency of transactions, automated processes and smart-contract functionality may help AFMs monitor investor activity, operate liquidity management tools and manage redemption requests more efficiently. At the same time, new risks may emerge, including those associated with continuous trading, faster investor behaviour and the operation of secondary markets during periods of stress.
- 9.6** Additional risks may arise where on-chain transparency enables third parties to infer future purchases or sales of underlying assets from observable subscription, redemption or trading activity in fund units. This could lead to front-running or other trading strategies that disadvantage fund investors.

- 9.7** We will continue to monitor these developments and assess the feedback on CP25/28. We will consider whether we need to change our regulatory framework, but we do not consider that tokenisation alters the rationale for our proposals in this consultation. In particular, where a NURS fund invests predominantly in inherently illiquid assets, the redemption terms should reflect the liquidity profile of the underlying portfolio. But we recognise that if tokenisation enables secondary market trading, investors could have another source of liquidity without altering the liquidity characteristics of the underlying assets.

**Question 25:** Do you have any comments on how fund tokenisation might impact our proposals for limited redemption arrangements?

## Chapter 10

# How to respond

We are asking for comments on this Consultation Paper (CP) by **11 December 2026**.

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

[www.fca.org.uk/publications/consultation-papers/cp26-35-fair-redemption-terms-  
authorised-funds-investing-illiquid-assets](https://www.fca.org.uk/publications/consultation-papers/cp26-35-fair-redemption-terms-<br/>authorised-funds-investing-illiquid-assets)

Or in writing to:

Joshua Carlton  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

Email: [cp26-35@fca.org.uk](mailto:cp26-35@fca.org.uk)

To read how we will use your response and how it will be disclosed, visit: [Consultation responses: your confidentiality and personal data | FCA](#)

Further information about the FCA's use of personal data can be found on the FCA website at: <https://www.fca.org.uk/privacy>.

If you choose not to respond using our online form, please let us know whether you consent to your name and response being made available to the public.

Please be sure to let us know in what capacity you are responding. If you are responding from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name).

## Annex 1

### Questions in this paper

- Question 1:** Do you think 2 years is enough time for:
- AFMs of FIIAs and the wider fund industry to be ready to comply with our proposals; and
  - investors that currently hold FIIA units in a Stocks & Shares ISA to make decisions and take any necessary action?'
- Question 2:** Do you agree that we should prescribe minimum redemption terms for all NURS funds with at least 50% of scheme property in inherently illiquid assets?
- Question 3:** Do you have any comments on our proposed amendments to the definition of an inherently illiquid asset? For example, whether they are also appropriate for master-feeder arrangements.
- Question 4:** Do you agree that the existing 3 month buffer works effectively for hybrid funds?
- Question 5:** Do you have any other comments on how the proposals may affect hybrid real estate funds?
- Question 6:** Do you agree that the dealing days for redemptions should be restricted for a FIIA? If so, is a maximum frequency of once a month appropriate?
- Question 7:** Do you agree that we should specify a notice period with a minimum length of 90 days for a FIIA?
- Question 8:** Do you agree that limited redemption arrangements should be available at discretion to the AFM of any NURS fund that is not a FIIA?
- Question 9:** Do you have any comments on the alternative options set out above and our reasons for not proceeding with them?
- Question 10:** Do you have any comments on the amended risk warning?
- Question 11:** Do you agree that the warning should apply to all NURS funds with limited redemption arrangements, rather than only FIIAs?
- Question 12:** Do you agree that we should amend the prospectus disclosure requirement for all NURS funds with limited redemption arrangements, rather than only FIIAs?

**Question 13:** Do you agree with our proposed approach to fundamental and significant changes for NURS funds with limited redemption arrangements?

**Question 14:** Do you agree that:

- an AFM of a NURS fund with limited redemption arrangements should be required to accept redemption requests during a suspension; and
- the period during which the fund is suspended should count towards the notice period?

**Question 15:** Do you agree that these additional requirements for suspensions should apply to all NURS funds with limited redemption arrangements, rather than only FIIAs?

**Question 16:** Do you agree that the existing deferral power available to NURS FAIFs should be extended to all NURS funds with limited redemption arrangements?

**Question 17:** Do you agree with our assessment of the impacts on retail investors? Do you see any other ways in which limited redemption arrangements could affect how intermediaries and financial advisers interact with FIIAs?

**Question 18:** Do you agree that we should review whether authorised funds with notice periods should be treated as non-standard assets for SIPP purposes?

**Question 19:** Do you consider that minimum redemption terms for FIIAs may create other obstacles to their inclusion in SIPPs, including transfers between SIPP operators?

**Question 20:** Do you agree that a FIIA should not be treated as a conditional permitted link?

**Question 21:** Do you agree that 185 days is still an appropriate maximum time for AFMs of a NURS fund with limited redemption arrangements to pay the unitholders the proceeds of a redemption?

**Question 22:** Do you agree that AFMs should be able to allow investors to revoke redemption requests in a NURS fund with limited redemption arrangements, subject to the relevant test?

**Question 23:** Do you foresee any additional obstacles to operating and calibrating anti-dilution tools in a NURS fund with a notice period?

- Question 24:** Do you have any comments on our proposed minor and consequential changes?
- Question 25:** Do you have any comments on how fund tokenisation might impact our proposals for limited redemption arrangements?
- Question 26:** Do you have any comments on our assumptions regarding market participant responses, including the assumed retention rates (parameter R) and levels of platform support?
- Question 27:** Do you have any comments on our proposed estimates of IT implementation costs? Where possible, please provide supporting evidence for any alternative cost estimates.
- Question 28:** Do you have any comments on our cost benefit analysis?

## Annex 2

# Cost benefit analysis

### Executive summary

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1. This cost benefit analysis (CBA) assesses the impacts of the proposals to address liquidity mismatch by aligning the liquidity offered to investors more closely with the liquidity of the underlying assets. We propose to amend the scope of the regime for funds investing in inherently illiquid assets (FIAs) and require FIAs to operate limited redemption arrangements comprising a minimum 90-day notice period and a dealing day for redemptions no more frequently than monthly.
2. Liquidity mismatch occurs when investors can redeem units in a fund more quickly than the underlying assets can be realised. This may result in investor harm through increased risk of investor dilution and lowered expected investment returns where funds hold additional cash or liquid assets to support frequent dealing. In more extreme circumstances, liquidity mismatch can increase the risk of a suspension becoming necessary.
3. Based on regulatory data, we estimate that 17 funds, including feeders, with aggregate net asset value (NAV) of approximately £7.22bn would be classified as FIAs under the proposed definition, as of December 2025. We estimate that retail investors account for £3.07bn of investment in the affected funds, which are primarily distributed through intermediaries like investment platforms and financial advisers.
4. In estimating the impact of the proposals, the principal source of uncertainty is how intermediaries and investors would respond to introducing 90-day notice periods for affected FIAs. Therefore, we assess high, moderate, and low retention scenarios by varying intermediary support and investor retention. Our central case assumes some investors reallocate their investments to other funds, and some platforms, advisers and model portfolio providers facilitate notice periods for FIAs. In all scenarios, we assume that FIAs remain eligible for Stocks & Shares ISAs.
5. We expect the proposals to reduce the likelihood of liquidity-driven suspensions, support fairer allocation of liquidity-related costs between redeeming and remaining investors, and reduce incentives for investors to redeem ahead of others during periods of market stress. We consider these benefits to be central to the rationale for intervention, but it is not reasonably practicable to estimate them reliably.
6. The proposals may enable some fund managers to reduce cash and liquid asset holdings, allowing more assets to be invested in line with the fund's investment strategy. In our central scenario, we estimate benefits to investors of £43.88m from increased returns from reduced cash allocation, in 10-year present value terms. Across the scenarios considered, these benefits range from £42.18m to £46.02m.

7. We estimate direct implementation costs to firms with a present value of £15.37m over 10 years in our central case. Across the retention scenarios considered, these costs range from £13.18m to £17.56m, reflecting differences in the extent to which intermediaries accommodate funds with notice periods.
8. The proposals would reduce redemption flexibility for some investors. Investors with unanticipated liquidity needs may need to rely on alternative sources of liquidity while waiting for redemption requests to be processed and would remain exposed to market movements during the notice period. Across the scenarios and assumptions considered, these costs range from £16.95m to £37.84m. This reflects uncertainty regarding both investor retention following implementation and the proportion of investors who incur borrowing and market risk costs.
9. Across the scenarios and investor assumptions considered, the quantified impacts produce a 10-year net present value (NPV) ranging between a net cost of -£9.37m to a net benefit of £12.05m. In our central scenario, we estimate a positive quantified NPV of £1.95m. Therefore, the quantified analysis is finely balanced and sensitive to assumptions. However, it captures only a subset of the expected impacts of the proposals and does not include the principal benefits from reducing liquidity mismatch, including reduced risk of liquidity-driven suspensions, reduced investor dilution risk and first-mover advantage, and more orderly asset sales during periods of market stress. Taking both quantified and unquantified impacts into account, we consider the proposals to be net beneficial.
10. While this fund segment is small relative to the wider UK fund sector, improved liquidity management and fund resilience may support confidence in UK funds more broadly and help maintain the sector's competitiveness through greater alignment with international standards for liquidity risk management.
11. Overall, we consider the proposals to represent a proportionate intervention to address liquidity mismatch in FIIAs. We intend to monitor post-implementation outcomes in liquidity-driven fund suspensions, fund closures, asset flows, and NAV across affected FIIAs. Where data is available, we will consider changes in funds' liquidity profiles, including holdings of cash and other liquid assets. This will help us assess whether implementation and market outcomes are broadly consistent with those anticipated in this CBA.

## Introduction

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12. Section 138I of the Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our 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.'
13. In August 2020, we consulted on mandatory notice periods for authorised open-ended property funds structured as non-UCITS retail schemes (NURS) and investing at least 50% of scheme property in real estate ([CP20/15: Liquidity Mismatch in Authorised Open-Ended Property Funds](#)). We are now reconsulting on proposals to address liquidity mismatch in the broader population of funds investing in inherently illiquid assets.

- 14.** This CBA assesses the significant impacts of the proposals, quantifying them where it is reasonably practicable or otherwise considering them qualitatively. This analysis informs our judgement on the appropriate level of regulatory intervention, considering both the risks and expected impacts. In developing it, we have reflected feedback to CP20/15 on the operational and implementation challenges associated with notice periods, including limitations in platform capabilities and the need to adapt existing systems and processes along the distribution chain.

## The Market

### Definitions and scope

- 15.** The core proposals would require authorised fund managers (AFMs) of funds investing in inherently illiquid assets (FIAs) to introduce minimum redemption terms. As defined in Chapter 3 of the consultation paper, a FIA would be a NURS investing at least 50% of the value of scheme property in inherently illiquid assets, irrespective of its existing redemption terms. The proposals are broader than those consulted on in CP20/15, applying to all inherently illiquid assets rather than only direct investment in real estate.
- 16.** The affected population primarily comprises NURS real estate funds. However, it also includes a small number of funds of alternative investment funds (FAIFs) that meet the FIA definition through investments in other funds that have exposure to illiquid assets. Given the restrictions on NURS investment powers, we consider other routes through which a NURS could exceed the 50% threshold to be limited.
- 17.** Some NURS outside the scope of the proposed minimum redemption terms nevertheless have significant exposure to less liquid assets. These funds remain subject to existing requirements for AFMs to ensure consistency between a fund's investment strategy, liquidity profile, and redemption terms. This includes hybrid real estate funds below the 50% threshold and funds invested in less liquid transferable securities. Table 1 summarises the funds within scope of the proposed minimum redemption terms.

**Table 1: Funds within and outside of scope of proposed minimum redemption terms**

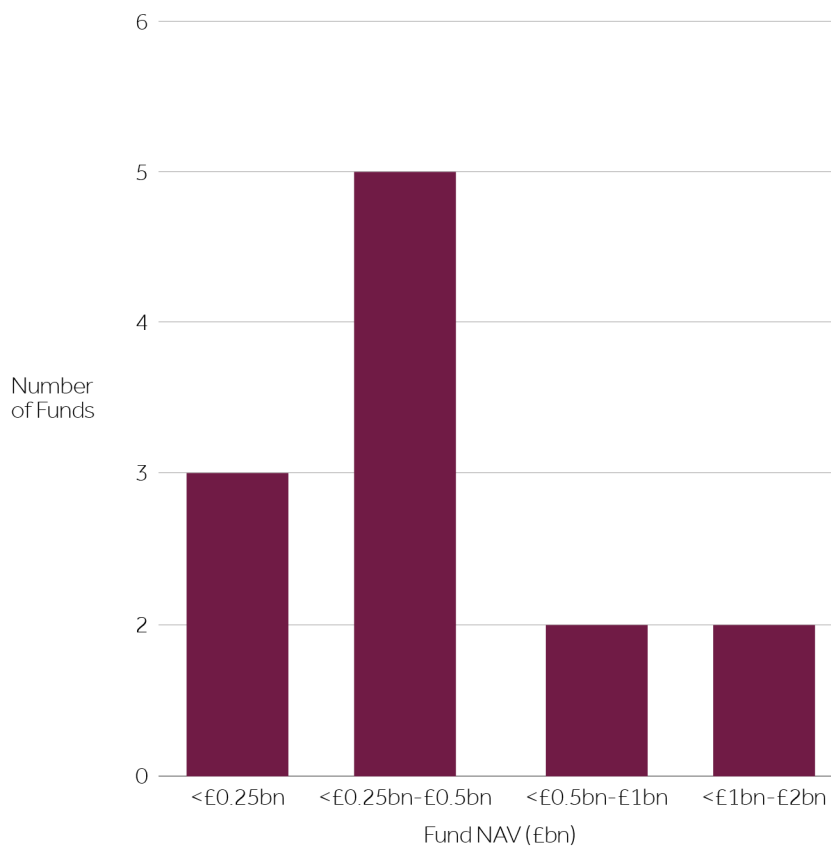
| Fund category                                                                                              | In scope? | Notes                                                                                                                 |
|------------------------------------------------------------------------------------------------------------|-----------|-----------------------------------------------------------------------------------------------------------------------|
| NURS with at least 50% of scheme property invested directly in real estate                                 | Yes       | Within the proposed FIA definition                                                                                    |
| NURS FAIFs with at least 50% of scheme property invested in inherently illiquid assets through other funds | Yes       | FAIFs have wider investment powers and may obtain material exposure to inherently illiquid assets through other funds |
| Hybrid real estate NURS with less than 50% exposure to inherently illiquid assets                          | No        | Outside the FIA regime unless they exceed the threshold for more than 3 continuous months                             |
| NURS invested predominantly in approved transferable securities                                            | No        | Approved transferable securities are not treated as inherently illiquid assets for the purposes of the FIA regime     |

- 18.** A few other NURS already have limited redemption arrangements but would not be FIIAs under the amended definition. We estimate this population to be 3 NURS managed by 3 AFMs. While the substantive proposals would not apply to these funds, there are some smaller changes for AFMs operating these funds.

### **Size and composition of the FIIA market**

- 19.** Although the proposals apply to a broader range of funds than those consulted on in CP20/15, the affected market is now substantially smaller. Based on FCA regulatory data, the number of affected funds (including feeders) has fallen by 45%, from 31 funds in 2020 to 17 FIIAs at present.
- 20.** This contraction may reflect changes in UK real estate investment market activity. Several NURS real estate funds have closed, while others have transitioned to hybrid business models with less than 50% of scheme property invested in inherently illiquid assets. As a result, these hybrid funds fall outside the proposed FIIA regime.
- 21.** The 17 in-scope FIIAs had aggregate NAV of £7.22bn in December 2025 according to FCA regulatory reporting data. This includes 5 funds that act as feeders to FIIAs, which are excluded from aggregate NAV statistics to avoid double-counting. Of these FIIAs, 3 funds, including 1 feeder fund, with aggregate NAV of £0.87bn already operate with a 90-day notice period.
- 22.** Figure 1 shows that most FIIAs have less than £0.5bn in NAV, while 2 FIIAs have NAVs between £0.5bn and £1bn, and a further 2 FIIAs have NAVs of £1bn or more.

**Figure 1: Distribution of all FIIAs by NAV, 2025**



Source: AIFMD reporting data, Notes: Excludes 5 feeder funds to avoid double counting. Includes the 2 FIIAs which have existing notice periods.

- 23.** Due to data limitations, we are unable to identify the precise retail concentration in these funds. However, we estimate that retail investors account for approximately £3.07bn, representing 43% of the aggregate NAV invested in FIIAs.

### Distribution and intermediary channels

- 24.** A range of intermediary channels support the distribution of FIIAs. These firms play an important role in how retail investors access the affected FIIAs and may influence how the market responds to the introduction of notice periods. The principal distributors and intermediaries considered in this CBA are:

- Investment platform providers
- Financial advisers
- Model portfolio service providers
- Self-invested personal pension (SIPP) operators
- Providers of unit-linked life products

- 25.** Investment platforms are the main distribution channel for FIIAs and account for the majority of invested NAV. We estimate that 13 investment platforms and 3 additional unit-linked providers distribute the affected funds. Platform support for funds with

notice periods is a key determinant of the impact of the proposals on investor access and market outcomes.

26. Financial advisers are an important distribution channel for FIIAs to retail investors. We estimate that at least £2bn of investment is distributed through advised channels based on supervisory data, equivalent to approximately 65% of retail NAV and 28% of total NAV. Because we cannot identify which firms advise on the affected funds, approximately 4,490 financial advisers may need to consider the proposals.
27. Model portfolio service providers construct and manage investment portfolios on behalf of financial advisers and discretionary managers for predominantly retail clients. We estimate that 4 of the 6 retail-marketed FIIAs are currently included in model portfolios. As a result, the proposals may affect construction and rebalancing decisions involving these funds.
28. Many retail investors invest in FIIAs via SIPPs, and so SIPP operators form an important part of the distribution chain for affected funds. The proposals may also affect how these firms administer investments in FIIAs, as discussed further in the costs section.
29. Providers of unit-linked life products offer investors exposure to FIIAs through life assurance and pension products. We estimate that around 5 unit-linked providers provide exposure to 6 affected FIIAs through approximately 17 mirror funds. Although the proposals do not apply directly to these products, changes to the redemption terms of the underlying funds may affect how insurers provide and administer this exposure.

## Problem and rationale for intervention

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### Description of the harm

30. FIIAs may offer redemption terms that are not aligned with the liquidity characteristics of the underlying assets. This is consistent with our research on the UK alternative investment fund market, which identified potential liquidity mismatch among real estate funds. Such liquidity mismatch can result in harm to investors, including:
  - Loss of access to capital when funds suspend dealing
  - Increased dilution risk where liquidity-related costs are not fully borne by redeeming investors
  - Lower investment returns where funds hold additional liquid assets to support frequent dealing

### *Harm 1: Fund suspension and loss of access to capital*

31. FIIAs may be unable to meet redemption requests in an orderly manner if investor demand for liquidity increases during periods of market stress. Where this occurs, a fund may suspend dealing, preventing investors from accessing or repurposing their capital.
32. There have been several suspensions of NURS funds over the past 7 years, of which 12 were driven by valuation-related issues and 7 by liquidity-related reasons. Notably, all 7

liquidity-driven suspensions occurred in funds that would have fallen within scope of the proposed FIIA regime. While there have been relatively few liquidity-related suspensions, FIIAs are particularly susceptible to such events because of the liquidity mismatch between their redemption terms and the underlying assets.

- 33.** While fund suspensions may be necessary to protect investors and preserve the value of the fund, they nonetheless leave investors unable to access or repurpose their investments for an uncertain period. Where suspensions occur because redemption terms are not aligned with the liquidity characteristics of the underlying assets, investors may lose access to their capital in a manner that is inconsistent with the redemption terms offered by the fund.

### ***Harm 2: Increased investor dilution from liquidity-related costs***

- 34.** Investors may bear liquidity-related costs resulting from the redemption activity of other investors. When investors redeem from a FIIA, the fund incurs costs in generating the necessary liquidity, including transaction and portfolio rebalancing costs. These costs may not be allocated accurately to redeeming investors.
- 35.** We expect AFMs to use anti-dilution and liquidity management tools to ensure that transacting investors bear their fair share of these costs. However, this becomes more challenging where a fund is predominantly invested in inherently illiquid assets while offering frequent dealing. In these funds, the full costs of meeting redemptions may not be known when redemption prices are determined. Managers will typically meet redemptions using available cash and more liquid holdings before subsequently restoring the portfolio to its target allocation. As a result, the eventual costs of selling and rebalancing inherently illiquid assets may only become apparent after the redeeming investor has exited the fund.
- 36.** Consequently, some liquidity-related costs may be borne by remaining investors rather than the redeeming investors that generated them. This can dilute the value of the fund, leading to outcomes that are inconsistent with the principle that investors should bear the costs associated with their own redemption activity.

### ***Harm 3: Reduced investment returns from liquidity buffers***

- 37.** To support frequent redemption arrangements, some AFMs may hold larger allocations to cash or liquid assets than would otherwise be necessary. While these holdings may help FIIAs accommodate redemptions without asset sales, they reduce the capital available for investment in inherently illiquid assets. This may reduce investors' expected returns and limit the fund's ability to achieve its investment objectives.

### **Drivers of harm**

- 38.** Where investors can redeem units more quickly than the underlying assets can be realised, two market failures act as drivers of investor harm:
- First-mover advantage due to liquidity mismatch.
  - Information asymmetries and mismatched liquidity expectations.

### ***First-mover advantage due to liquidity mismatch***

- 39.** When investors redeem from a FIIA, the fund incurs costs in generating the liquidity required to meet those redemptions. Where redeeming investors do not bear the full liquidity costs generated by their redemption activity, some costs may instead be borne by remaining investors through dilution.
- 40.** This may create a first-mover advantage during periods of uncertainty. Investors expecting future redemptions to impose costs on the fund may have an incentive to redeem before others to avoid bearing those costs (Goldstein, Jiang, and Ng, 2017; Chen and Dunne, 2024). These incentives may amplify redemption pressure, increasing potential harm to remaining investors.

### ***Information asymmetries and mismatched liquidity expectations***

- 41.** Investors may find it difficult to assess whether a FIIA's redemption terms are consistent with the time required to sell its underlying assets, particularly during periods of market stress. They may therefore form expectations about access to their capital based on the redemption terms without fully anticipating the possibility of delayed redemptions or suspension. This may prevent investors from making informed decisions about whether the fund is appropriate for their liquidity needs and what proportion of their capital they are willing to commit for longer periods.

## **Trade-offs and policy options considered**

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- 42.** We have considered a range of policy options to address the risks posed by liquidity mismatch among FIIAs. Table 2 sets out the core policy options considered and our assessment of the trade-offs associated with each.

**Table 2: Assessment of policy options considered**

| Option                                               | Description                                                                                                                   | Advantages                                                                                                                | Disadvantages                                                                                                                                                                                                                                                                                                      | SICGO Consideration                                                                                                                              |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Option 0:<br>Do Nothing                              | No intervention; maintain current framework.                                                                                  | Avoids disruption; may reduce regulatory uncertainty in the short term.                                                   | Does not address liquidity mismatch; may perpetuate risks.                                                                                                                                                                                                                                                         | Short-term certainty, but negative for long-term market resilience.                                                                              |
| Option 1:<br>Greater Use of Deferrals                | Allow AFMs expanded powers to defer redemptions (e.g. beyond 100 days) while maintaining daily dealing and no notice periods. | Maintains operational flexibility; allows daily NAV calculation and subscriptions; potential to match inflows / outflows. | Creates uncertainty for investors on redemption timing; may give a false sense of liquidity; outcomes similar to suspension; does not address first-mover advantage; may not reduce cash drag; could lead to lack of consistency that is difficult for platform providers and other intermediaries to accommodate. | Likely negative – reduced transparency and predictability could undermine investor confidence, damaging sustainable investment growth.           |
| Option 2:<br>Require FIAs to Become LTAFs            | Eliminate FIA structure and require all such funds to operate as LTAFs.                                                       | Simplifies regulatory framework; clear categorisation of illiquid funds.                                                  | Reduces investor choice; LTAFs have broader risk profile and are RMMIs; may exclude lower-risk retail investors.                                                                                                                                                                                                   | Mixed / negative – could constrain access and reduce participation in illiquid markets.                                                          |
| Option 3:<br>Higher Threshold (e.g. 75%)             | Set a higher threshold for being a FIA, e.g. 75%.                                                                             | Captures most remaining direct real estate funds and addresses liquidity mismatch in these funds.                         | Such a high threshold could give retail investors the impression that NURS funds with significant exposure to inherently illiquid assets – e.g. around 50% – are generally liquid because they are not in scope of the FIA regime so do not have notice periods.                                                   | Mixed – would provide more flexibility to fund managers below 75% threshold, but would allow liquidity mismatch risks to persist in other funds. |
| Option 4:<br>Mandate Limited Redemption Arrangements | Require FIAs to operate limited redemption terms.                                                                             | Addresses liquidity mismatch harms.                                                                                       | Implementation costs for AFMs, distributors and other market participants.                                                                                                                                                                                                                                         | Maintains alignment with international liquidity management standards.                                                                           |

- 43.** Without intervention (Option 0), we consider the market is unlikely to address the harm described above, given the limited incentives for voluntary adoption of notice periods for FIAs. This is for two main reasons:
- Fund managers may have limited commercial incentives to introduce notice periods voluntarily where daily dealing is valued by investors, advisers and distributors, and where amending the redemption terms would change a key characteristic of the fund.
  - Voluntary adoption may be constrained by limitations in infrastructure and coordination along the distribution chain.
- 44.** Option 4 is our preferred option because it directly addresses the underlying liquidity mismatch and the resulting harms. Alternative approaches, such as greater use of redemption deferrals (Option 1), would create uncertainty for investors regarding redemption timing and would not address first-mover advantage. Requiring all affected funds to transition to the LTAF regime (Option 2) would impose significantly greater disruption and reduce investor choice.
- 45.** Therefore, the proposed intervention represents a proportionate means of reducing liquidity mismatch while continuing to allow retail investors access to investments in inherently illiquid assets, avoiding both the risks of leaving liquidity mismatch unaddressed and the greater disruption associated with requiring affected funds to transition to the LTAF regime.

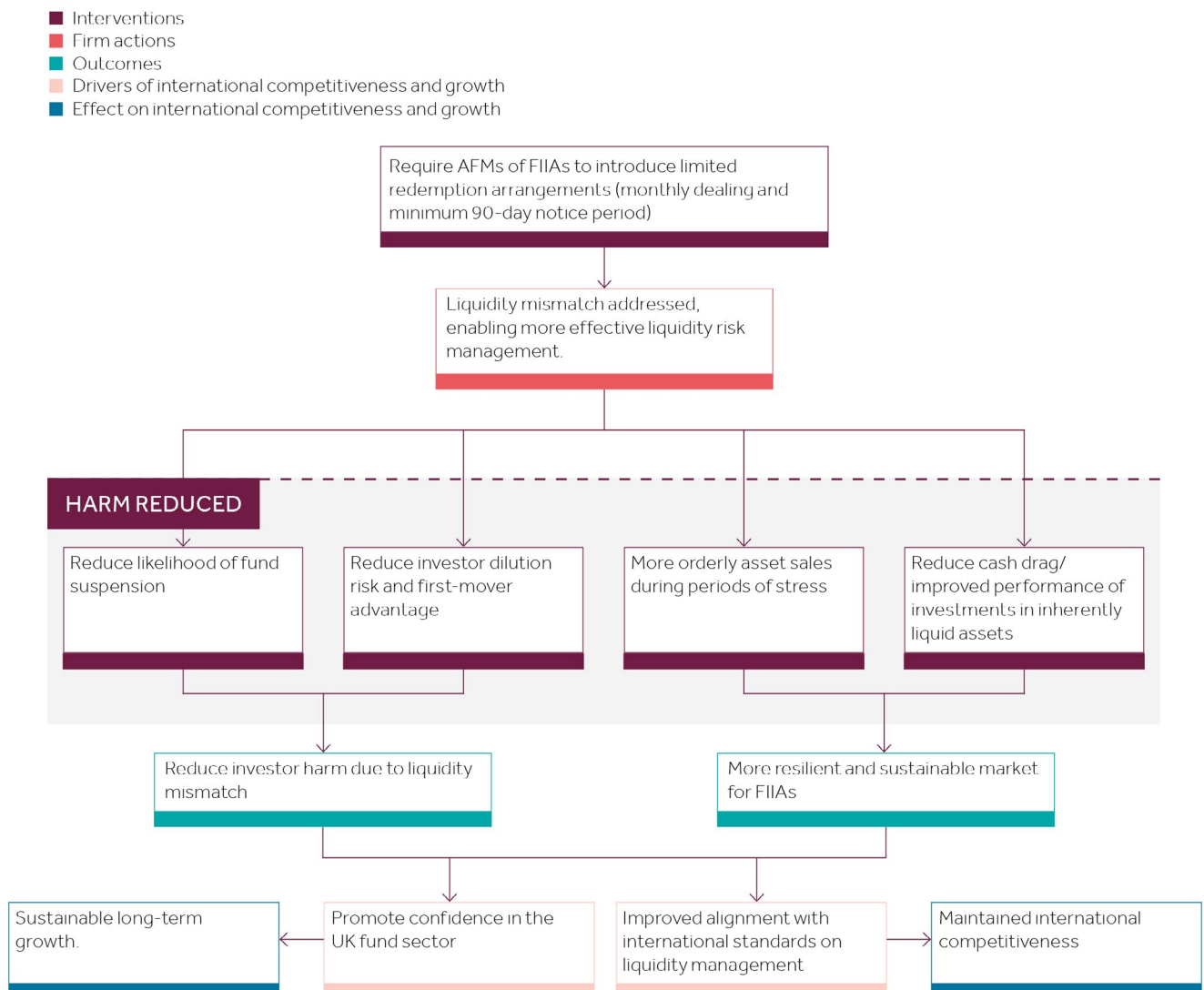
## Our proposed intervention

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- 46.** Under the proposals set out in Chapter 3, FIAs would be required to align redemption terms more closely with the liquidity of the underlying portfolio. AFMs of affected NURS would be required to introduce FIA-prescribed limited redemption arrangements, such that:
- The AFM has a dealing day for redemptions no more frequently than monthly.
  - A minimum notice period of at least 90 days applies to redemptions.
- 47.** The proposals also amend the scope of the existing FIA regime, resulting in some AFMs being brought into scope of the regime and required to comply with these existing requirements for the first time. AFMs of NURS which operate limited redemption arrangements but are not FIAs, would be required to update their prospectus and fund marketing materials to include our proposed risk warning (see Chapter 4). They can also consider using redemption deferrals more flexibly (see Chapter 6).
- 48.** In Chapter 8, we also propose minor changes to the operation of limited redemption arrangements by AFMs, such as clarifying the valuation deadline and allowing LTAF managers to permit limited revocations of redemption requests. We do not expect AFMs to need to make changes to their existing practices because of these proposals.

49. The causal chain in Figure 2 shows how we expect the proposals to deliver reduced risk of harm from liquidity mismatch and deliver more sustainable outcomes for the illiquid retail fund market.

**Figure 2: Causal chain**



## Our analytical approach

50. We use scenario analysis to reflect the uncertainty about how market participants may respond to the proposals. Intermediary support will affect the accessibility of FIIAs, while some investors may reallocate because notice periods do not meet their liquidity needs. Changes in investor demand may in turn affect intermediaries' incentives to support funds with notice periods and ultimately the scale and viability of affected FIIAs. These responses are interdependent and may reinforce one another.

- 51.** The degree of uncertainty is heightened because the affected FIIA market, consisting of 14 FIIAs (excluding those with existing notice periods), is small, and there are few comparable retail funds with notice periods. Feedback to the previous consultation identified potential operational challenges for firms in the distribution chain. Therefore, we assess the costs, benefits, and wider market impacts under a range of plausible market responses.
- 52.** We model three scenarios: high retention; moderate retention, which is our central case; and low retention. These scenarios reflect two related factors:
- **Intermediary support:** the extent to which platforms, advisers, and model portfolio providers continue to facilitate or include FIIAs in their offerings.
  - **Investor retention:** the extent to which retail investors remain invested in affected FIIAs after the introduction of notice periods, reflecting both changes in intermediary support and investors' willingness to accept reduced redemption flexibility.
- 53.** We assume in all 3 scenarios that FIIAs remain eligible for Stocks & Shares ISAs (S&S ISAs). The potential consequences of FIIAs losing S&S ISA eligibility are considered separately in the 'Risks and uncertainties' section. So, the scenarios focus on how intermediaries and retail investors may respond to the proposals. We summarise the assumed level of intermediary support and investor retention under each scenario in Table 3.

**Table 3: Overview of scenarios modelled**

|                                   | High retention                                                                                 | Moderate retention                                                        | Low retention                                                              |
|-----------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------|
| S&S ISA eligibility               | FIIAs remain eligible for S&S ISAs                                                             |                                                                           |                                                                            |
| Platform support                  | Platforms broadly facilitate affected FIIAs                                                    | Some platforms facilitate affected FIIAs                                  | Platform support for affected FIIAs is limited                             |
| Adviser & model portfolio support | Advisers and model portfolio providers broadly continue to recommend or include affected FIIAs | Some advisers and model portfolio providers move away from affected FIIAs | Adviser and model portfolio provider support for affected FIIAs is limited |
| Investor retention                | Limited reallocation from affected FIIAs                                                       | Some reallocation from affected FIIAs                                     | Higher reallocation from affected FIIAs                                    |

- 54.** Under each scenario, we express the combined market response through parameter R, defined as the proportion of existing retail NAV that remains invested in affected FIIAs following implementation. R captures reallocation resulting from both intermediary and investor responses. We do not separately estimate the contribution of each driver to changes in NAV because they may overlap, and there is insufficient evidence to quantify their individual impacts.

- 55.** We apply judgement-based assumptions, informed by evidence on investor preferences, feedback from industry engagement, and the operational implications of accommodating funds with notice periods. The values for parameter R represent a plausible range of market responses, rather than a forecast of investor behaviour.
- 56.** We use moderate retention as our central scenario. Industry engagement indicates that accommodating notice periods is operationally feasible but may not be commercially attractive for all firms. Some investors may reallocate because notice periods do not meet their liquidity needs. On balance, we expect some reduction in intermediary support and some investor reallocation.
- 57.** The low retention scenario is informed by evidence from the 2026 IA ISA Barometer, in which 63% of surveyed investors reported being comfortable having their investments tied up for longer periods if this potentially generated higher returns. We use the corresponding 37% as a conservative upper bound assumption for retail investor reallocation. However, this evidence relates to the wider investor population rather than existing investors in affected FIAs, who may be more willing than investors generally to accept notice periods given their decision to invest in inherently illiquid funds. Consequently, we do not use it as our central assumption. Table 4 presents the resulting assumptions for parameter R.

**Table 4: Retail NAV retention rate assumptions**

| Scenario           | R: Retail NAV retention rate in affected FIAs | Proportion of retail NAV reinvested in other funds |
|--------------------|-----------------------------------------------|----------------------------------------------------|
| High retention     | 90%                                           | 10%                                                |
| Moderate retention | 75%                                           | 25%                                                |
| Low retention      | 63%                                           | 37%                                                |

- 58.** We apply the retention assumptions to the estimated retail NAV of the 6 affected retail-marketed FIAs, excluding feeder funds, which have a combined NAV of approximately £3.68bn. We hold retention constant for the remaining FIAs because they either already operate with notice periods or are predominantly held by institutional investors. The analysis estimates the existing retail NAV remaining in FIAs and the amount reallocated to other funds by investors, while holding future inflows and underlying market growth constant. Table 5 presents the resulting market outcomes, excluding FIAs that already have notice periods.

**Table 5: Estimated market outcomes under each scenario**

| Scenario           | Estimated retail NAV remaining in FIAs (£bn) | Estimated NAV reallocated to other funds (£bn) | Estimated total FIA NAV remaining (£bn) |
|--------------------|----------------------------------------------|------------------------------------------------|-----------------------------------------|
| High retention     | 2.76                                         | 0.31                                           | 6.91                                    |
| Moderate retention | 2.30                                         | 0.77                                           | 6.45                                    |
| Low retention      | 1.93                                         | 1.14                                           | 6.08                                    |

Source: FCA internal analysis using regulatory data and scenario assumptions.

## Intermediary support

- 59.** Intermediary support may affect investor retention by determining whether affected FIAs remain accessible through existing investment arrangements or continue to be recommended or included in managed portfolios. Reduced intermediary support could make the affected funds less accessible and contribute to investor reallocation. We consider how platform providers, financial advisers, and model portfolio providers may respond to notice periods. However, it is not reasonably practicable to separately estimate these effects because intermediary responses are likely to be interdependent, and there is insufficient evidence to separately quantify their contribution to investor retention.
- 60.** Platforms that continue to offer affected FIAs may need to adapt their systems and processes to accommodate notice periods. Although this is operationally feasible, such changes may involve practical challenges, as discussed in Chapter 7 of the consultation paper, and implementation costs, which are considered below. Given the relatively small size of the affected market, some firms may conclude that the commercial benefits do not justify the necessary investment.
- 61.** Platform responses could therefore range from broad continued facilitation of affected FIAs to limited availability through existing retail distribution channels. We reflect this uncertainty in the platform support assumptions across our high, moderate, and low retention scenarios. These assumptions are intended solely to model the potential costs of systems changes and should not be interpreted as forecasts of the number of platforms that will ultimately accommodate notice periods. They do not map directly to parameter R but instead reflect the broad expectation that greater platform support is likely to be associated with higher investor retention, while recognising considerable uncertainty around both outcomes. We assume that:
- All 16 platforms offering affected FIAs will accommodate notice periods, in the high retention scenario
  - 12 platforms, in the moderate retention scenario
  - 8 platforms, in the low retention scenario
- 62.** For advised clients, whether an affected FIA remains suitable will be determined through the advice process. Feedback to CP20/15 indicated that some advisers may consider funds with notice periods unsuitable for clients who require more immediate access to invested capital. This could lead those clients to reallocate to alternative investments. However, suitability will depend on individual objectives, circumstances, and liquidity needs, and so the response is unlikely to be uniform across advised clients.
- 63.** Furthermore, notice periods may make portfolio rebalancing more complex for model portfolio service providers because units in affected FIAs could no longer be redeemed immediately when the provider seeks to adjust portfolio allocations. Firms could continue to include affected FIAs but may need to adapt how they plan and implement portfolio rebalancing to account for notice periods. The operational implications are likely to depend on the providers' existing arrangements, including rebalancing frequency and how they manage deviations from target allocations.

64. We believe providers should be able to adapt their processes to accommodate affected FIIAs. However, our analysis allows for the possibility that some providers choose to replace affected FIIAs with investments that can be redeemed more readily. Internal analysis indicates that rebalancing practices vary across firms, with many providers rebalancing quarterly. Therefore, it remains possible to include funds with a 90-day notice period in a model portfolio.
65. Taken together, intermediary responses are likely to vary and interact dynamically. Platforms' decisions will depend on the operational and commercial case for accommodating notice periods, while adviser recommendations and model portfolio inclusion will depend on clients' liquidity needs and firms' existing portfolio management practices.

### Investor retention

66. We estimate the retail NAV to which the retention assumption applies by classifying affected FIIAs as retail-only, institutional-only, or mixed. For the 4 funds with mixed investor bases, fund-level regulatory data does not identify the proportion of NAV held by retail investors. Based on responses to CP20/15, we assume that 30% of their NAV is held by retail investors.
67. Using this and additional information on specific funds where available, we estimate that retail investors hold approximately £3.07bn, or 83%, of the NAV of the 6 retail-marketed FIIAs. We apply parameter R to this NAV. The remaining approximately £0.61bn, or 17%, is treated as institutionally held.
68. We hold the institutional NAV in these 6 funds, together with the NAV in institutional-only FIIAs, constant across the scenarios. We expect institutional investors to be less sensitive to notice periods because they are generally more familiar with restricted redemption arrangements and manage liquidity across broader, often longer-term portfolios. However, some institutional investors may still reallocate because of their liquidity needs, investment mandates, or portfolio allocation decisions. We treat this as an uncertainty, rather than modelling an institutional reallocation.
69. Nevertheless, all investors in FIIAs newly subject to notice periods will experience reduced redemption flexibility. We account for this separately in the estimated cost to investors.

**Question 26:** Do you have any comments on our assumptions regarding market participant responses, including the assumed retention rates (parameter R) and levels of platform support?

## Other key assumptions

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- 70.** We use the following standard assumptions from our Statement of Policy on CBAs:
- A 10-year appraisal period.
  - A discount rate of 3.5% to calculate the present value of the stream of costs and benefits.<sup>1</sup>
  - All values presented in 2026 prices.
  - 100% compliance with the proposals, including that AFMs of FIIAs will implement notice periods.
- 71.** We use our Standardised Cost Model (SCM) to estimate common costs to firms. The SCM applies standard assumptions about the staff, time, and resources required to undertake different compliance activities, with costs varying by firm size. To estimate the opportunity cost of staff time, we use average salary assumptions uplifted to account for non-wage labour costs.
- 72.** Given uncertainty about the future development of the market, we assume that there is no underlying market growth or contraction over the 10-year appraisal period. The market size varies in our analysis only because of the estimated impact of the proposals and modelled investment returns.
- 73.** Under the baseline, and consistent with current market practice, we assume that AFMs of affected NURS do not introduce notice periods and that fund suspensions continue at historical rates over the appraisal period.

## Summary of Impacts

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- 74.** The proposals are expected to benefit investors and AFMs by reducing liquidity mismatch through closer alignment between redemption terms and the liquidity characteristics of the underlying assets. We expect this to lower the likelihood of liquidity-driven suspensions, to reduce investor dilution risk and first-mover advantage, and to enable more orderly asset sales during periods of stress. These benefits are central to the rationale for intervention but are not reasonably practicable to quantify.
- 75.** The proposals generate quantified costs and benefits for firms and investors. The principal quantified costs comprise one-off implementation and compliance costs for AFMs, distributors, and other market participants, together with the ongoing costs incurred by investors with unanticipated liquidity needs. The main quantified benefit is higher expected investment returns where notice periods enable some FIIAs to reduce cash holdings and invest a greater proportion of scheme property in accordance with their investment strategy. Table 6 summarises the quantified impacts under the moderate retention scenario, which is our central case.

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<sup>1</sup> On 7 September 2026, the Chancellor announced that HM Treasury will accept the Green Book discount rate review's recommendation to reduce the headline Green Book discount rate from 3.50% to 3.00%. In response, we will align our discount rates accordingly within CBAs published after this change takes effect following the 2026 Budget. We will also reflect the change within our next update to our statement of policy on CBA.

**Table 6: Summary of quantified costs and benefits, central scenario**

| Group affected                 | Item description                                         | Benefits (£m) |                  | Costs (£m) |                  |
|--------------------------------|----------------------------------------------------------|---------------|------------------|------------|------------------|
|                                |                                                          | One-off       | Ongoing (annual) | One-off    | Ongoing (annual) |
| All firms                      | Familiarisation and legal review                         |               |                  | 5.17       |                  |
| Authorised fund managers       | Implementation costs of introducing notice periods       |               |                  | 0.75       |                  |
|                                | Costs for AFMs newly within scope of the FIIA regime     |               |                  | 0.13       | 0.27             |
| Distributors                   | IT implementation costs                                  |               |                  | 6.57       |                  |
| Unit-linked providers          | Implementation costs                                     |               |                  | 0.06       |                  |
| Depositories & transfer agents | Process adjustment costs                                 |               |                  | 0.39       |                  |
| Investors                      | Increased returns from reduced cash allocation           |               | 4.62             |            |                  |
|                                | Borrowing and market risk costs                          |               |                  |            | 2.10 - 4.08      |
|                                | Reduced likelihood of fund suspensions                   |               | Not quantified   |            |                  |
|                                | Reduced investor dilution risk and first mover advantage |               | Not quantified   |            |                  |
| AFMs and investors             | More orderly asset sales during times of stress          |               | Not quantified   |            |                  |
| Totals                         |                                                          | -             | 4.62             | 13.07      | 2.36 - 4.35      |

- 76.** The scale of several impacts depends on how intermediaries and investors respond to the proposals, and so we assess the proposals under high, moderate, and low investor retention scenarios. Higher retention results in a greater proportion of NAV remaining invested in affected FIAs following implementation. This increases the estimated benefit from lower cash holdings because more assets remain invested in funds capable of reducing cash allocations. However, it also increases the estimated borrowing and market risk costs incurred by investors with unanticipated liquidity needs. In addition, investor costs are presented as ranges to reflect uncertainty regarding both the proportion of investors with unanticipated liquidity needs and the borrowing costs incurred by those investors.
- 77.** Furthermore, implementation costs for firms vary across the scenarios because higher investor retention is associated with greater intermediary support. In scenarios where

more distributors accommodate funds with notice periods, a larger number of firms incur the costs of implementing the necessary systems and process changes.

- 78.** As a result, higher retention increases both the estimated benefits and the estimated costs of the proposals. Table 7 presents the resulting present value of quantified costs and benefits over the 10-year appraisal period.

**Table 7: 10-year present value of impacts, by scenario**

|                    | Present value of benefits (£m) | Present value of costs (£m) | Net present value (£m) |
|--------------------|--------------------------------|-----------------------------|------------------------|
| High retention     | 46.02                          | 36.95 to 55.38              | -9.37 to 9.07          |
| Moderate retention | 43.88                          | 33.40 to 50.47              | -6.59 to 10.48         |
| Low retention      | 42.18                          | 30.13 to 46.11              | -3.93 to 12.05         |

- 79.** The quantified results indicate that the balance of quantified costs and benefits is sensitive to both investor retention and assumptions regarding investor costs. Under the moderate retention scenario, which is our central case, we estimate a positive quantified net present value of £1.95m (the mid-point of -£6.59m to £10.48m).
- 80.** Table 8 summarises the aggregate present value of quantified costs and benefits over the appraisal period. While the direct impacts of the proposals comprise implementation costs to firms, the quantified benefits and most quantified costs reflect indirect impacts on investors.

**Table 8: Aggregate present value impacts**

|                          | Present value of benefits (£m)                                                                                                                                                                                              | Present value of costs (£m) | Net present value (£m)       |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|------------------------------|
| Total impact             | 43.88<br>(42.18 to 46.02)                                                                                                                                                                                                   | 41.94<br>(30.13 to 55.38)   | 1.95<br>(-9.37 to 12.05)     |
| - of which direct        | 0                                                                                                                                                                                                                           | 15.37<br>(13.18 to 17.56)   | -15.37<br>(-17.56 to -13.18) |
| - of which indirect      | 43.88<br>(42.18 to 46.02)                                                                                                                                                                                                   | 26.57<br>(16.95 to 37.83)   | 17.31<br>(8.19 to 26.63)     |
| Key unquantified impacts | Benefits from improved liquidity management and fund resilience:<br>Reduced likelihood of fund suspensions<br>Reduced investor dilution risk and first-mover advantage<br>More orderly asset sales during periods of stress |                             |                              |

Note: Ranges are derived from scenario-specific estimates and should not be interpreted as independently combinable upper and lower bounds.

- 81.** The quantified analysis captures only a subset of the expected impacts of the proposals, as the quantified benefits are limited to the estimated increase in investment returns due to lower cash holdings in certain affected funds. While these benefits are relevant,

the primary objective of the intervention is to reduce the harms associated with liquidity mismatch.

82. Therefore, we place significant weight on the expected benefits from improved liquidity management and fund resilience when assessing the overall impact of the proposals. Taking both the quantified and unquantified impacts into account, we consider the proposals to represent a proportionate response to the harms identified in this analysis.
83. The direct impacts shown in Table 8 represent the direct cost to business resulting from the proposals. We estimate an equivalent annual net direct cost to business (EANDCB) of approximately £1.79m (£1.53m to £2.04m) across the investor retention scenarios.

**Table 9: Net direct costs to firms**

|                        | <b>Net direct cost to business (£m)</b> | <b>EANDCB (£m)</b>     |
|------------------------|-----------------------------------------|------------------------|
| Total cost to business | 15.37<br>(13.18 to 17.56)               | 1.79<br>(1.53 to 2.04) |

## Benefits

### Benefits from improved liquidity management and fund resilience

84. The proposals are intended to strengthen liquidity management in the affected funds across all scenarios by better aligning liquidity offered to investors with the liquidity of the underlying assets. There are three principal channels through which this can arise:
- **Reduced likelihood of fund suspensions:** Notice periods provide fund managers with additional time to manage redemption requests, which may reduce the likelihood that funds are unable to meet redemption requests and are therefore required to suspend dealing during periods of stress. This may improve investor outcomes by reducing the disruption and uncertainty associated with suspension events and can support investor confidence in the sector.
  - **Reduced investor dilution risk and first-mover advantage:** Notice periods may help ensure that the costs associated with meeting redemption requests are not borne disproportionately by remaining investors, in line with the new rules and guidance set out in [PS26/17: Enhancing fund liquidity risk management](#). In particular, by reducing incentives for investors to redeem ahead of others during periods of market stress, notice periods may mitigate first-mover advantages and support a fairer allocation of liquidity-related costs between redeeming and remaining investors.
  - **More orderly asset sales during periods of stress:** Notice periods may enable fund managers to manage redemption requests in a more orderly manner by providing

additional time to plan and execute asset disposals. This may reduce the need to sell assets quickly to raise liquidity, including higher-quality assets that may be easier to dispose of at short notice. By reducing the reliance on such sales, notice periods may help preserve portfolio quality, reduce the risk of asset sales at discounted prices, and support more orderly management of redemption pressures during periods of stress.

### Increased returns from reduced cash allocation

- 85.** We expect the proposals to reduce the cash balances needed to manage redemption requests, allowing a larger share of NAV to be invested in inherently illiquid assets rather than being held in cash. This may reduce cash drag and increase investor returns where such assets generate higher expected returns than cash. To account for potential investor outflows following implementation, we estimate benefits only on the NAV that remains invested in the funds based on our scenario analysis.
- 86.** To reflect that assets reallocated from cash to inherently illiquid assets continue to generate returns over time, we compound the cash-repurposing benefit over the appraisal period for accumulation funds. As the funds for which we estimate cash-reduction benefits are all property funds, we use capital market assumptions (CMAs) for long-term returns for UK core real estate and cash. CMAs are forward-looking estimates based on providers' economic assumptions, data, and modelling techniques. We use the publicly available 2026 CMAs produced by J.P. Morgan Asset Management, which provides assumptions for both UK core real estate and UK cash within a consistent framework.

**Table 10: J.P. Morgan 2026 long-term capital market assumptions, UK real estate and cash**

| Asset Class         | Expected annual compound return (%) |
|---------------------|-------------------------------------|
| UK core real estate | 7.80                                |
| UK cash             | 2.70                                |

Note: Expected compound returns, net of management fees, over a 10- to 15-year investment horizon. Returns are net of management fees.

Source: J.P. Morgan Asset Management, 2026 Long-Term Capital Market Assumptions.

- 87.** Forecasting long-term returns is inherently uncertain. Other CMA providers may produce different estimates; however, the other publicly available CMAs lacked assumptions specifically for UK real estate. Therefore, we use a single provider and recognise the limitation when interpreting these estimates.
- 88.** In estimating this benefit, we acknowledge that not all funds will reduce their cash holdings as some funds already operate with more restrictive redemption terms and therefore maintain lower cash holdings already. We restrict our analysis to funds that maintain cash holdings materially above the average across comparable funds with 90-day notice periods of around 6%. Based on recent data on cash holdings, we consider only a subset of funds are likely to reduce their cash holdings in response to the policy

and generate cash-reduction benefits for investors. The funds under consideration are real estate funds that can be marketed to retail and have a combined NAV of approximately £0.87bn, to which we apply our assumed retention rate assumptions as set out in 'Our analytical approach'.

89. We assume that these funds reduce their cash holdings to 6%, consistent with observed cash holdings among comparable real estate NURS and LTAFs that operate with 90-day notice periods.
90. We use this to estimate the amount of cash that could be repurposed and then apply an excess return based on the CMAs of 5.10%. For accumulation funds, we compound this benefit over the appraisal period to reflect that returns generated on repurposed cash are reinvested and continue to generate additional returns over time.
91. Table 11 presents estimated cash repurposing under each scenario, the corresponding initial annual benefit, and the 10-year present value of those benefits.

**Table 11: Benefits to investors from reduction in cash drag**

| Scenario           | Cash repurposed (£m) | Initial annual benefit (£m) | 10-year present value benefit (£m) |
|--------------------|----------------------|-----------------------------|------------------------------------|
| High retention     | 95.04                | 4.85                        | 46.02                              |
| Moderate retention | 90.63                | 4.62                        | 43.88                              |
| Low retention      | 87.10                | 4.44                        | 42.18                              |

## Costs

### Cost to firms

#### *Familiarisation and legal review costs*

92. We estimate 4,736 firms will incur one-off costs to familiarise themselves with the proposals and undertake any legal review and gap analysis. We assume that all firms described in the 'Market' section incur these costs. Our familiarisation cost estimates are based on 90 pages of policy documentation that is reviewed by a small compliance team. The legal review estimates assume 35 pages of legal text are relevant. Table 12 summarises the estimated one-off costs to firms of £5.17m.

**Table 12: Familiarisation and legal review cost estimates**

| <b>Firm Size</b> | <b>Average cost per firm (£)</b> | <b>Number of firms</b> | <b>Total cost (£)</b> |
|------------------|----------------------------------|------------------------|-----------------------|
| Large            | 13,700                           | 41                     | 560,000               |
| Medium           | 4,000                            | 123                    | 490,000               |
| Small            | 900                              | 4,572                  | 4,120,000             |
| Total            |                                  | 4,736                  | 5,170,000             |

### ***Implementation costs of introducing notice periods for AFMs***

- 93.** Consistent with our assumption of full compliance, we assume that all affected AFMs implement the proposed notice period requirements.
- 94.** AFMs will incur costs to update their internal processes to implement notice periods, including executive committee and board review. We estimate a total one-off cost of approximately £663,000 across 7 AFMs, based on our SCM assumption of a very small change project.
- 95.** AFMs will be required to update fund documentation, including constituting instruments, prospectuses, and other investor information and marketing materials. We estimate a total one-off cost of approximately £25,000 across all 14 affected funds.
- 96.** Further, AFMs will be required to notify investors of the changes to redemption terms. We estimate a total one-off cost of approximately £27,500 across all 14 affected funds.
- 97.** Finally, AFMs will be required to obtain a solicitor's certificate confirming that the proposed changes do not affect compliance with applicable legal and regulatory requirements. We estimate a total one-off cost of approximately £27,500 across all 14 affected funds.
- 98.** The proposals will require AFMs of non-FIIAs NURS with limited redemption arrangements to update documentation and marketing materials to include our new risk warning and determine whether they will make use of the new deferral power available to them. We estimate that this will affect 3 funds managed by 3 AFMs, with a total one-off cost of approximately £5,400.
- 99.** Taken together, we estimate that the one-off costs directly associated with implementing notice periods would be approximately £0.75m across all AFMs affected by the proposals.
- 100.** We recognise that some fund managers may restructure their funds to follow a hybrid strategy rather than be subject to a notice period. This transition is likely to involve one-off costs associated with portfolio reallocation, amendments to fund documentation, investor communications and governance processes. Moreover, they may also incur ongoing costs associated with monitoring and managing the fund's asset allocation to ensure it does not exceed the FIIA threshold for three continuous months.

- 101.** We have not quantified these costs because doing so would require assumptions about which fund managers choose to transition to a hybrid model and the extent of any portfolio restructuring required, both of which are fund-specific and subject to significant uncertainty.

### ***Costs for AFMs newly within scope of the FIIA regime***

- 102.** The proposals amend the scope of the existing FIIA regime. As a result, 5 funds (including feeder funds) managed by 4 AFMs will become subject to its requirements for the first time. We expect AFMs and relevant third parties to incur one-off costs from updating liquidity management contingency plans and fund disclosures. Depositaries will also incur ongoing costs for additional oversight.
- 103.** AFMs are already required to maintain appropriate liquidity risk management systems and procedures. The FIIA regime additionally requires a contingency plan for exceptional circumstances, covering the liquidity management tools the AFM may deploy, how it will work with depositaries and relevant third parties, and how the plan will be implemented. Further, AFMs must obtain written confirmation that relevant third parties can carry out the actions assigned to them. We estimate the combined one-off costs to AFMs and relevant third parties by uprating the CP18/27 estimates for inflation and applying them to the 5 relevant funds. This gives a total one-off cost of approximately £128,000.
- 104.** Further, AFMs will need to review and update prospectuses and related disclosures to comply with the FIIA regime. Applying the CP18/27 per-fund estimate to the 5 affected funds and uprating it for inflation, we estimate a total one-off cost of approximately £5,000.
- 105.** Depositaries will incur ongoing costs from additional oversight of the affected AFMs' liquidity management arrangements. Following CP18/27, we estimate the incremental cost as 0.02% of the affected funds' aggregate NAV, based on an assumed depositary charge of 0.2% of NAV and a 10% increase in that charge. Applying this to the aggregate NAV of the 5 funds, we estimate the annual ongoing cost as approximately £267,000. We expect these costs will be passed on to the affected AFMs through higher depositary charges.
- 106.** Taken together, we estimate that bringing these AFMs within the FIIA regime will generate total one-off costs of approximately £0.13m and ongoing costs of approximately £0.27m annually.

### ***IT Implementation costs for distributors***

- 107.** The proposals will generate one-off implementation costs for distributors that continue to offer the affected FIIAs. Distributors comprise investment platform providers and certain other firms, such as unit-linked providers, that would need to make system changes to accommodate notice periods.
- 108.** The total implementation costs depend on the number of distributors that choose to accommodate notice periods, which vary under our scenarios set out in 'Our analytical approach'. These assumptions illustrate differing levels of distributor support across the scenarios and are not forecasts of the number of firms that will implement the required

systems changes. The implication of this assumption, however, is that lower costs are incurred in a more disruptive scenario.

- 109.** Feedback from stakeholders indicated that CP20/15 understated the scale of system changes required to accommodate notice periods. To reflect this, we assume a higher level of implementation complexity when estimating distributors' IT implementation costs.
- 110.** As the affected firms are similar in size, we expect average implementation costs to be similar. Using our SCM assumptions, we estimate that a platform provider choosing to continue offering affected FIAs would require approximately 1,092 person-days of staff time across multiple business functions to update its systems. This yields an average one-off implementation cost of approximately £550,000 per firm. As we expect most of the expenditure to arise during implementation, we do not estimate material ongoing costs.
- 111.** Table 13 presents the costs of accommodating funds with notice periods under each scenario.

**Table 13: Costs of accommodating funds with notice periods on platforms**

| Scenario           | Number of distributors accommodating notice periods | One-off implementation cost (£m) |
|--------------------|-----------------------------------------------------|----------------------------------|
| High retention     | 16                                                  | 8.75                             |
| Moderate retention | 12                                                  | 6.57                             |
| Low retention      | 8                                                   | 4.38                             |

**Question 27:** Do you have any comments on our proposed estimates of IT implementation costs? Where possible, please provide supporting evidence for any alternative cost estimates.

### ***Implementation costs for unit-linked providers***

- 112.** The proposals will require unit-linked providers to update contractual documentation, communicate changes to policyholders and advisers, and adapt relevant operational processes. Providers that continue to offer exposure to the affected funds may also need to update their systems and arrangements for rebalancing default schemes.
- 113.** Providers will need to review and amend relevant terms and conditions to reflect the introduction of notice periods. We estimate that firms will require 2 person-days to identify, draft, review and approve the necessary changes. On this basis, we estimate a one-off cost of approximately £40,600 across 5 unit-linked providers to update the relevant documentation. Furthermore, providers will need to communicate the changes to policyholders and advisers and implement new operational processes.

- 114.** In CP20/15, we estimated a cost of £1,000 per mirror fund for these activities. Up-rated for inflation, this equates to a total one-off cost of £22,300 across 17 unit-linked funds. Taken together, we estimate total one-off implementation costs of £0.06m across affected unit-linked providers and mirror funds.
- 115.** Some providers of unit-linked funds may be contractually required to pay benefits to policyholders within a shorter timeframe than the 90-day notice period applying to the underlying funds. Therefore, providers may need to hold additional regulatory capital or otherwise manage the resulting liquidity and market risk. However, it is not reasonably practicable to quantify the associated opportunity cost, because the relevant contractual terms, existing capital positions and approaches to managing this risk vary across firms.

### ***Implementation costs for SIPP operators***

- 116.** Where a SIPP operator implements the necessary system changes to accommodate funds with notice periods, the current prudential regime may result in an increase in its capital surcharge which gives rise to an opportunity cost. Units held in FIIAs with 90-day notice periods would be classified as non-standard assets, which increase capital surcharges for SIPP operators whose plans hold units in FIIAs.
- 117.** Our proposed transitional provision for existing units in FIIAs held in SIPPs will mitigate the immediate impact of this change. Through our consultation, we invite feedback on whether it is justified to retain the capital surcharge for any units in FIIAs, or other authorised funds with notice periods, newly added to SIPPs and note that we would consult separately on this.
- 118.** It is not reasonably practicable to estimate the opportunity cost associated with any increase in the capital surcharge, as we do not have data on the number of SIPP plans holding units in FIIAs at individual SIPP operators. However, we expect the impact to be limited. Our internal 2024 data show that 79 of the 96 SIPP operators surveyed (82%) already had at least one plan containing non-standard assets. As the estimated increase in the capital surcharge falls as the proportion of plans already containing non-standard assets rises, many firms are likely to face only a modest increase in capital requirements. At the median SIPP operator, where 6% of plans contained non-standard assets, increasing the share of plans containing non-standard assets from 6% to 11% increases the capital surcharge from approximately 61% to 83% of the initial capital requirement, an increase of around 22 percentage points. Furthermore, given the relatively small size of the FIIA sector, the number of SIPP operators and plans affected by the change is likely to be limited.

### ***Costs for other participants***

- 119.** The proposals will generate one-off costs for depositaries and transfer agents, primarily relating to process adjustments. Applying inflation-adjusted estimates from CP20/15, we estimate a one-off cost of £33,000 per depositary and £20,000 per transfer agent. Applying these estimates to 6 depositaries and 10 transfer agents supporting the affected funds, we estimate a total one-off cost of approximately £0.39m.

## Cost to investors

- 120.** The proposals would reduce redemption flexibility for most investors in affected FIIAs. Under the baseline, investors can ordinarily submit a redemption request and have the value of their units determined at a near-term valuation point, subject to the fund's dealing arrangements and any suspension. Under the proposed rules, investors would remain invested in the fund during the 90-day notice period.
- 121.** Investors in illiquid assets may not expect to use these investments as a source of quick liquidity. However, some may face unanticipated liquidity needs or wish to reduce their exposure to the asset class at short notice. Under the proposals, these investors would be unable to redeem immediately and would need to wait until the notice period expires.
- 122.** This may give rise to two types of investor cost: borrowing costs and market risk costs. First, investors who require access to funds before their redemption is processed may need to rely on alternative sources of liquidity, such as bank loans, overdrafts, or other liquid assets. Second, investors remain exposed to changes in the value of the underlying assets during the notice period and are therefore unable to immediately reduce their exposure to market movements.
- 123.** To estimate investor costs, we make assumptions regarding:
- The volume of redemptions affected by the proposals.
  - The proportion of redeeming investors who incur costs.
  - Borrowing costs for investors requiring short-term liquidity.
  - The market risk associated with remaining invested during the notice period.
- 124.** We assume annual gross redemptions equal 10.47% of NAV, based on the average annual redemption rate observed over the last 10 years using regulatory reporting data and financial statements.
- 125.** The extent to which investors incur costs depends on their ability to anticipate future liquidity needs. Investors who submit redemption requests sufficiently in advance can avoid borrowing costs, although they remain exposed to market risk during the notice period. However, some investors may need to redeem for portfolio rebalancing, short-term cash needs, or other unanticipated reasons. Consistent with CP20/15, we assume that 15% to 20% of redemptions give rise to investor costs. This is a judgement-based assumption reflecting uncertainty regarding investor behaviour.
- 126.** To estimate borrowing costs, we assume affected investors can access credit at annual interest rates of 6.51% to 10.84%, based on [Bank of England interest rate data](#) for

£5,000 to £10,000 personal loans in the 12 months to August 2026. This corresponds to a 90-day borrowing cost of approximately 1.63% to 2.71%.

- 127.** We estimate compensation for market risk using the capital asset pricing model (CAPM). Under this approach, investors require compensation for bearing market risk equal to the market risk premium multiplied by the asset beta. We use an equity market risk premium of 4.3% (UBS Global Investment Returns Yearbook 2025). The relevant asset class betas are 0.89 for real estate, 0.86 for private equity, and 0.36 for private credit (Blackrock's Preqin Insights report). This implies a 90-day risk premium of 0.94% for real estate, 0.91% for private equity, and 0.38% for private credit.
- 128.** Table 14 summarises the key modelling assumptions used to estimate investor costs.

**Table 14: Summary of investor cost modelling assumptions**

|                                                   | Real estate    | Private equity | Private credit |
|---------------------------------------------------|----------------|----------------|----------------|
| Annual gross redemptions as a proportion of NAV   | 10.47%         |                |                |
| Proportion of redeeming investors incurring costs | 15% to 20%     |                |                |
| Borrowing costs over 90 days                      | 1.63% to 2.71% |                |                |
| Market risk premium over 90 days                  | 0.94%          | 0.91%          | 0.38%          |
| Total cost per £ of affected redemptions          | 2.54% to 3.64% | 2.51% to 3.61% | 1.98% to 3.08% |

- 129.** Table 15 presents the estimated annual costs to investors under each scenario. The range reflects uncertainty regarding both the borrowing costs incurred by affected investors and the proportion of redemptions that give rise to investor costs.

**Table 15: Costs to investors from 90-day notice periods**

| Scenario           | Annual cost, low (£m) | Annual cost, high (£m) |
|--------------------|-----------------------|------------------------|
| High retention     | 2.52                  | 4.39                   |
| Moderate retention | 2.10                  | 4.08                   |
| Low retention      | 1.97                  | 3.83                   |

- 130.** We estimate annual investor costs between approximately £1.97m to £4.39m, depending on the scenario and assumptions regarding borrowing costs and the proportion of affected redemptions. The high retention scenario produces the

largest costs because it results in the greatest amount of NAV remaining invested in affected funds.

## Wider economic impacts, including on secondary objective

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- 131.** Improved liquidity management and resilience of affected funds may promote confidence in the UK fund sector and support its competitiveness through greater alignment with international standards for liquidity risk management. However, any wider economic impacts are likely to be limited given the relatively small size of the affected market.
- 132.** Our scenario analysis suggests that NAV held in FIIAs may fall from £7.22bn prior to the policy to between £6.08bn and £6.91bn following implementation, depending on the scenario considered. However, we do not consider the resulting impact on investment in illiquid assets and the wider economic growth to be material.
- 133.** First, the affected funds represent a relatively small share of the relevant sectors, with the affected real estate FIIAs and FAIF FIIAs accounting for less than 7% of the UK-managed real estate sector and less than 1% of the fund of funds sector respectively. Second, we consider that a substantial proportion of any outflows would be reinvested in funds investing in similar asset classes that do not have a notice period. Third, we believe improved investor confidence from new redemption arrangements can support inflows into this fund sector over the medium to long term and therefore deliver new growth in the sector. However, we do not quantify this benefit.

## Risks and uncertainties

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- 134.** The principal source of uncertainty is the extent to which market participants are willing to accept reduced liquidity when assessing the overall impact of the proposals. The scale of investor outflows depends on how investors value immediate redemption rights; whether distributors and platforms continue to support affected funds; and whether advisers and model portfolio providers continue to recommend or include such products within client portfolios. These responses are likely to be interdependent and may affect the viability of some funds. We address this uncertainty through the scenario analysis presented above.
- 135.** A further key uncertainty relates to whether funds in scope of the proposals would remain eligible for the S&S ISA. This outcome depends on changes to the ISA framework, which sits outside of the FCA's rule-making powers. While the loss of S&S ISA eligibility would affect investor demand for some funds, the scale of any impact is highly uncertain, depending on factors including the proportion of affected holdings currently held within S&S ISAs, the availability of alternative ISA arrangements, operational solutions developed by firms, and investor willingness to hold investments outside of their existing S&S ISA (i.e. in a General Investment Account).

- 136.** Absent a change in the ISA Regulations to permit NURS with notice periods to remain eligible for S&S ISA, FIIAs would only be eligible for the Innovative Finance ISA (IF ISA) regime. We could expect material outflows due to key three issues:
- Potential friction and transaction costs for retail investors if investors are unable to transfer holdings in specie from an S&S ISA to an IF ISA, as investments that lose S&S ISA eligibility may need to be sold and repurchased before being transferred. In-specie transfers avoid this process, reducing transaction costs and exposure to market movements.
  - Major platforms do not currently offer IF ISAs and the commercial incentives for platforms to develop or support IF ISA propositions remain limited due to the small number of affected funds.
  - IF ISAs may be less attractive to retail investors due to prominent risk warnings, reflecting FCA requirements linked to peer-to-peer activities.
- 137.** While investors could hold these units outside an ISA wrapper, this is unlikely to be an attractive option for many investors due to potential capital gains tax implications.
- 138.** We acknowledge that there may be significant market disruption if the proposals were implemented without corresponding changes to the ISA Regulations, particularly for firms with significant exposure through S&S ISAs. This could affect the commercial viability of some funds, especially where investors are unwilling to transfer their holdings to an IF ISA, reducing demand for these funds and, in turn, the commercial incentive for platforms to distribute them.

## Monitoring and evaluation

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- 139.** We intend to monitor post-implementation outcomes using available supervisory and regulatory data, supplemented by bilateral engagement with affected fund managers, platforms, and distributors. Our monitoring will consider changes in liquidity-driven fund suspensions, fund closures, asset flows, and NAV across affected FIIAs. Where data is available, we will consider changes in funds' liquidity profiles, including holdings of cash and other liquid assets. This will help us assess whether implementation and market outcomes are broadly consistent with those anticipated in this CBA.
- 140.** We expect notice periods to reduce the likelihood of liquidity-driven fund suspensions by enabling fund managers to anticipate and meet redemption requests more effectively. Further, we will evaluate whether notice periods allow affected FIIAs to manage liquidity with lower holdings of cash and other liquid assets, allowing a greater proportion of fund assets to be invested in accordance with the fund's investment strategy.

**Question 28:** Do you have any comments on our cost benefit analysis?

## Annex 3

# Compatibility statement

## Compliance with legal requirements and changes for existing investors

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1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA). This Annex also explains our views on the proportionality of our proposals to the extent that they involve the potential interference with investors' existing property rights (see paragraphs 42-44).
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, (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA, and (d), under section 138EA(2) FSMA, to consider anything HMT has specified that the FCA is required to have regard to that are relevant to the making of the rules in question. 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 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when

exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

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

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7. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because it is in the interests of the wider UK economy to promote robust liquidity risk management in the UK fund sector. We propose to do this by addressing the liquidity mismatch in NURS funds invested in inherently illiquid assets and, in doing so, align the authorised fund framework with international standards on liquidity risk management. For the purposes of the FCA's strategic objective, 'relevant markets' are defined by section 1F FSMA.
8. We consider these proposals advance our consumer protection objective because mismatch between the redemption policy and the liquidity of the assets in the fund poses multiple risks of harm to retail investors. In determining how we can secure an appropriate degree of protection for consumers, we have had regard to, among other factors:
  - **The differing degrees of risk involved in different kinds of investment or other transactions.** As a retail focussed authorised fund structure, we believe that a NURS fund should be subject to robust liquidity risk management practices and have redemption terms which minimise the liquidity risk to the greatest extent possible.
  - **The differing degrees of experience and expertise that different consumers may have.** We believe that some consumers would already view NURS funds invested in inherently illiquid assets such as real estate as long-term investments and do not rely on these investments for quick liquidity. However, we consider it important that this is also made clear through the redemption terms for those investors who are less familiar with the market.
  - **The needs that consumers may have for the timely provision of information and advice that is accurate and fit for purpose, and the general principle that consumers should take responsibility for their decisions.** We consider it important that, not only do the redemption terms of a fund make clear that the fund is a long-term investment, but that this is also communicated to consumers through a fund's marketing materials and fund documentation. We have taken this into account in developing the proposed rules. This will help consumers take responsibility for their decisions by allowing them to take informed decisions about what proportion of their investable assets they are comfortable locking away for longer periods of time.
9. We also consider that the proposals advance our market integrity objective by promoting the soundness, stability and resilience and the orderly operation of financial markets. Due to the AFM's reliance on a liquid asset buffer to meet redemption requests, the liquidity mismatch in NURS funds invested in inherently illiquid assets can give rise to first-mover advantage, which is most likely to be appreciated by professional or more experienced investors. Where a liquidity buffer is inadequate to

meet redemption requests, the sale of the least liquid portfolio assets to meet further redemption requests may add to stress in financial markets. This can reduce confidence in certain sectors of the UK financial markets and disrupt the price formation process.

10. We consider these proposals comply with the FCA's secondary objective in advancing international competitiveness and growth because we provide for alignment with international standards while allowing AFMs to retain responsibility for determining the redemption terms of the funds they manage, subject to complying with the proposed minimum terms.
11. In recent years, regulators across the globe have taken steps to address the liquidity mismatch that can arise when open-ended funds invest in inherently illiquid assets such as real estate. These examples illustrate a broader international trend towards ensuring that redemption arrangements and liquidity management frameworks are better aligned with the liquidity of underlying investments, particularly where funds invest in assets that may take significant time to sell. We have sought to strike a balance between providing the AFM with sufficient time to sell the inherently illiquid assets in the portfolio and enabling investors to access their money within a reasonable period.
12. We have had regard to recommendations for the FCA set out in the HM Treasury remit letter of November 2024. We believe our proposals will help to create a regulatory environment which facilitates growth through supporting competition and innovation and will contribute towards maintaining and enhancing the UK's position as a world-leading global finance hub. In developing these proposals we have engaged with the Bank of England, including the Prudential Regulation Authority (PRA).
13. In preparing the proposals set out in this consultation, we have 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**

14. All AIFMs must ensure that the investment strategy, redemption policy and liquidity profile of an AIF are aligned. We believe that this existing principle-based approach remains appropriate. However, we have chosen to propose a more prescriptive approach for cases where the redemption terms cannot be reconciled with the liquidity profile of the fund because of the inherently illiquid nature of the assets in the portfolio.

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

15. While the proposals will lengthen the time in which investors must wait to withdraw money from the affected funds, the proposals are intended to improve on the existing situation where sudden suspensions of dealing can cause even greater delays and financial distress. We believe that the proposals will ultimately make the funds more appropriate products for consumers by reducing the liquidity risk and cash drag, which in turn can improve the potential investment return.

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

16. In developing these proposals, we have had regard to our duties under these requirements. The outcome of our consideration is set out in paragraph 38 of this Annex.

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

17. We believe that our proposals will improve consumers' ability to take responsibility for their decisions as it will be clear that the funds are intended for long-term investment and consumers should not rely on them for quick liquidity.

**The responsibilities of senior management in relation to compliance with requirements imposed under FSMA, especially where they relate to consumers**

18. We do not believe this principle is relevant to our proposals. We do not propose to place any new requirements or responsibilities on senior management.

**The desirability of exercising our functions in a way that recognises the differences in the nature of - and objectives of - businesses carried on by different persons including mutual societies and other kinds of business organisation**

19. In developing our proposals we have taken account of how they may affect the different nature and objectives of business carried on by different persons, including mutual societies. Although our proposals will directly affect a relatively small number of firms, we have not identified a need to treat any of the affected firms differently because of the nature or characteristics of their business. Our proposals will not affect mutual societies.

**The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information to advance our operational and secondary objectives**

20. Our proposals do not involve publishing information relating to authorised persons.

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

21. We have acted transparently in developing these proposals. IOSCO's publication of the revised recommendations in May 2025 already gave a clear indication of the topic areas that national regulators, including the FCA, should have regard to when developing

enhancements to liquidity risk management practices. In our Regulatory Initiatives Grid, most recently in May 2026, we committed to consulting on proposals implementing the IOSCO guidelines and said that this will incorporate residual work on retail funds invested in illiquid assets. By consulting now, we are giving firms time to consider the specifics of our proposals and to submit a response.

- 22.** In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).
- 23.** We consider that this principle is not relevant to these proposals but will continue to keep this under review.

## Expected effect on mutual societies

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- 24.** The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies.

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

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- 25.** In preparing the proposals set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.
- 26.** We want to promote a competitive marketplace in which a broad range of funds are available to retail investors. We believe that ensuring the UK fund distribution system can accommodate a broad range of fund structures should also permit fund managers to explore a diversity of investment strategies, including greater investment into longer term assets with limited liquidity. While the number of funds directly in scope is small, we believe that successful implementation will mean that there is an easier route in future for new funds to enter the market that have more restrictive redemption terms to reflect the illiquidity of the portfolio.

## Compatibility with the requirement to detail engagement with statutory panels

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- 27.** We consulted the Financial Services Consumer Panel, Practitioner Panel, Smaller Business Practitioner Panel, Markets Practitioner Panel and the Listings Authority Advisory Panel. We have taken their feedback into account, including simplifying the authorised fund regime wherever possible and providing as much flexibility as possible within the proposed rules.

## Equality and diversity

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- 28.** 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.
- 29.** When we consulted on mandatory notice periods for authorised property funds in 2020, we said that consumers over 45 were more likely to invest in Stocks and Shares ISAs and therefore more likely to invest in open-ended daily dealing property funds than consumers under 45. We recognised that notice periods could require consumers to plan further ahead when they need access to their investments.
- 30.** We have revisited this issue and note that older investors continue to hold a disproportionate share of ISA wealth. As a result, the monetary value of assets potentially affected by notice periods is likely to be greater for older investors. However, we do not consider this constitutes an equality impact, as the proposals apply equally to all investors and these differences appear to reflect accumulated savings and investment behaviour over time rather than age itself.
- 31.** We have also considered whether the proposals may disproportionately affect investors experiencing significant life events or unforeseen financial circumstances requiring access to funds at short notice. Stakeholders have previously raised concerns regarding vulnerable consumers and the potential challenges associated with bearing market risk during the notice period. While we recognise these concerns, vulnerability is not a protected characteristic under the Equality Act 2010 and such circumstances may arise across all demographic groups. We therefore do not consider that the absence of a waiver mechanism available to the fund manager gives rise to a material equality impact.
- 32.** Delays in being able to redeem units in affected NURS funds as a result of more restrictive redemption terms could cause difficulties for individual investors. But this policy is intended to improve on the existing situation where sudden suspensions of dealing can cause even greater delays and financial distress.
- 33.** We also recognise the importance of effective disclosures in making clear to retail investors that a fund has a notice period and that they will bear the market risk during the length of that period. We therefore propose amended risk warning and disclosure rules and would welcome any feedback on how we might further improve consumer understanding of the trade-offs involved in investing in illiquid assets.
- 34.** 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 anti-discrimination 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.
- 35.** In the meantime, we welcome your input to this consultation on this.

## The Consumer Duty

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- 36.** The Duty sets higher and clearer standards of consumer protection and is at the heart of the FCA's shift to outcomes-based regulation. It requires firms to focus on delivering good customer outcomes. Under the Duty, we expect firms to be able to identify, monitor, evidence through data and stand behind the outcomes their customers experience. The Duty also sets requirements for firms in key areas including product and service governance and distribution, price and value, communications, and support. More information is [available here](#).
- 37.** We believe that, in delivering good outcomes for retail investors, AFMs should think carefully about the extent to which the redemption terms are consistent with the liquidity profile to provide for a high standard of liquidity risk management. The consumer understanding outcome is also particularly relevant as it is important consumers fully understand a fund's liquidity risk and how long they will need to wait to receive their money back.

## Environmental, social & governance considerations

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- 38.** In developing this Consultation Paper, we have considered the environmental, social and governance implications of our proposals and our duty under ss. 1B(5)(a) 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 and environmental targets under s. 5 of the Environment Act 2021. Overall, we do not consider the proposals to have a direct impact on 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.
- 39.** In the meantime, we welcome your input to this consultation on this.

## Legislative and Regulatory Reform Act 2006 (LRRRA)

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- 40.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are in line with the FSMA regulatory principles. In developing the guidance provisions, we have acted to ensure that our regulatory activities should be carried out in a way which is:
- transparent
  - accountable
  - proportionate
  - consistent and
  - targeted only at cases in which action is needed.

- 41.** 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 they are consistent with the Legislative and Regulatory Reform Act. For instance, we want to support the firms we regulate to comply and grow by providing clarity on the appropriate wrapper for retail investment into illiquid assets and work with industry during the proposed transition period to deliver a successful implementation. We have also based our regulatory activities on risk by taking action to address the structural liquidity mismatch present in the illiquid NURS sector and making sure that the funds are structured in a way that is suitable for retail investors.

## Changes for existing investors

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- 42.** We have considered the proportionality of our proposals to the extent that they involve the potential interference with investors' existing property rights. Our proposals amend the current framework of rules that apply to funds investing in illiquid assets. As already noted, to benefit from favourable tax treatment most retail investors will probably need to open a new, additional ISA.
- 43.** So far as our proposed intervention affects investors' existing rights, we consider that we have struck a fair balance between the rights of individual investors, and the general interest in managing the potential threat posed to financial stability by requiring greater consistency between a fund's liquidity profile and its redemption terms. The alternative options we have considered are set out in paragraphs 3.60-3.80, however we do not believe that any of these would adequately achieve the desired outcomes.
- 44.** To mitigate the impact on retail investors, we propose an implementation period of two years for the AFMs of existing NURS. We also explain in paragraph 4.17 our proposal that investors in existing funds are to have at least 1 year's notice of the introduction of limited redemption arrangements. Investors in existing funds would be notified far enough in advance to allow them decide what to do with their units before the change takes effect and make the necessary arrangements. As a result, we consider that the impact of our proposals on investors' property rights would be proportionate.

## Annex 4

# Measuring success

## Outcomes we are seeking

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1. Our proposals are intended to address the most prevalent pockets of structural liquidity mismatch in the authorised fund sector and reduce the risk of fund suspension, which poses risks of harm to consumers and market integrity. We believe our proposals also have the potential to improve the investment return offered by these funds and help to achieve the critical mass of funds with notice periods that will lead to industry-wide solutions being found to the distribution of these funds.
2. We want to provide clarity to the market and investors on the appropriate fund structure for retail investment into inherently illiquid assets. That clarity should create an environment that in the medium to long term better fosters growth in the sector, including the entry of new funds to the market. Overall, our proposals should improve the resilience of the illiquid authorised fund sector and give certainty to the market on the form that illiquid funds marketed to retail investors should take.

## Measuring success

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3. The principal measures of success will be that AFMs and fund distributors implement the notice period with as little disruption as possible for investors in the fund and that, over time, the asset value of funds with a notice period grows. We also want to see NURS with notice periods forming part of diversified investment propositions presented to retail investors (such as model portfolios) along with the entry of new funds to the market to increase the range of investor choice.
4. While suspension will remain a valid intervention in exceptional circumstances, we believe that the effective implementation of notice periods will cause its use to become rarer in the illiquid NURS sector, with AFMs better equipped to foresee and prevent liquidity shortages.
5. We also want to see a reduction in the cash buffer held by AFMs of some FIAs, which should in turn deliver an improved return for investors.
6. In July 2026, we consulted on a new regime for Fund Reporting for Asset Management Entities (FRAME) ([CP26/26](#)). As explained in the FRAME CP, we have existing portfolio liquidity reporting requirements for AIFs which distribute the fund's investment portfolio into time buckets, demonstrating how quickly they could reasonably be liquidated without a discount. We have reviewed this requirement and propose including it in our essential requirements, for all funds reporting under FRAME to complete.

7. For managers of authorised funds subject to enhanced reporting requirements, we propose to collect data on the availability and use of selected liquidity management tools. This would include both quantity-based tools, such as deferral of redemptions, gating and suspensions, and anti-dilution tools, such as dilution adjustment, dilution levies and dual pricing.
8. This data will help us understand how AFMs are equipped to manage liquidity pressure and how liquidity management tools are used in practice. It will also help us assess how tool use interacts with a fund's liquidity profile, redemption terms and investor flows.

## Annex 5

### Abbreviations used in this paper

| Abbreviation  | Description                                    |
|---------------|------------------------------------------------|
| <b>AIF</b>    | Alternative investment fund                    |
| <b>AIFM</b>   | Alternative investment fund manager            |
| <b>AIFMD</b>  | Alternative Investment Fund Managers Directive |
| <b>CBA</b>    | Cost Benefit Analysis                          |
| <b>CCI</b>    | Consumer Composite Investments                 |
| <b>CIS</b>    | Collective Investment Schemes sourcebook       |
| <b>CMA</b>    | Capital market assumptions                     |
| <b>COBS</b>   | Conduct of Business sourcebook                 |
| <b>COLL</b>   | Collective Investment Schemes                  |
| <b>CP</b>     | Consultation Paper                             |
| <b>DLT</b>    | Distributed ledger technology                  |
| <b>DISC</b>   | Product Disclosure sourcebook                  |
| <b>DP</b>     | Discussion Paper                               |
| <b>EANDCB</b> | Equivalent annual net direct cost to business  |
| <b>FAIF</b>   | Fund of alternative investment funds           |
| <b>FCA</b>    | Financial Conduct Authority                    |
| <b>FIIA</b>   | Fund investing in inherently illiquid assets   |
| <b>FPIP</b>   | Fund predominantly investing in property       |
| <b>FSB</b>    | Financial Stability Board                      |
| <b>FRAME</b>  | Fund Reporting for Asset Management Entities   |

| Abbreviation          | Description                                                      |
|-----------------------|------------------------------------------------------------------|
| <b>FSMA</b>           | Financial Services and Markets Act 2000                          |
| <b>FUND</b>           | Investment Funds sourcebook                                      |
| <b>HMRC</b>           | His Majesty's Revenue and Customs                                |
| <b>HMT</b>            | His Majesty's Treasury                                           |
| <b>IF ISA</b>         | Innovative Finance ISA                                           |
| <b>IOSCO</b>          | International Organization of Securities Commissions             |
| <b>ISA</b>            | Individual Savings Account                                       |
| <b>LRRA</b>           | Legislative and Regulatory Reform Act 2006                       |
| <b>LTAF</b>           | Long-term asset fund                                             |
| <b>NAV</b>            | Net Asset Value                                                  |
| <b>NPV</b>            | Net Present Value                                                |
| <b>NURS</b>           | Non-UCITS retail scheme                                          |
| <b>OTC derivative</b> | Over-the-counter (OTC) derivative                                |
| <b>PS</b>             | Policy Statement                                                 |
| <b>QIS</b>            | Qualified Investor Scheme                                        |
| <b>REIT</b>           | Real Estate Investment Trust                                     |
| <b>RMMI</b>           | Restricted Mass Market Investment                                |
| <b>SCM</b>            | Standardised Cost Model                                          |
| <b>SICGO</b>          | Secondary international competitiveness and growth objective     |
| <b>SIPP operator</b>  | Self-invested personal pension operator                          |
| <b>S&amp;S ISA</b>    | Stocks and Shares ISA                                            |
| <b>UCITS</b>          | Undertaking for Collective Investment in Transferable Securities |

# Appendix 1

## Draft Handbook text

**FUNDS INVESTING IN INHERENTLY ILLIQUID ASSETS (PRESCRIBED  
LIMITED REDEMPTION ARRANGEMENTS) INSTRUMENT 202X**

**Powers exercised**

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
    - (a) section 137A (The FCA’s general rules);
    - (b) section 137R (Financial promotion rules);
    - (c) section 137T (General supplementary powers);
    - (d) section 139A (Power of the FCA to give guidance);
    - (e) section 247 (Trust scheme rules);
    - (f) section 248 (Scheme particulars rules);
    - (g) section 261I (Contractual scheme rules); and
    - (h) section 261J (Contractual scheme particulars rules);
  - (2) regulation 6(1) (FCA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
  - (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

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

**Amendments to the Handbook**

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

| (1)                                                                | (2)     |
|--------------------------------------------------------------------|---------|
| Glossary of definitions                                            | Annex A |
| Interim Prudential sourcebook for Investment Businesses (IPRU-INV) | Annex B |
| Conduct of Business sourcebook (COBS)                              | Annex C |
| Collective Investment Schemes sourcebook (COLL)                    | Annex D |

## Notes

- E. In the Annexes to this instrument, the notes (indicated by “*Editor’s note:*”) are included for the convenience of the reader, but do not form part of the legislative text.

## Citation

- F. This instrument may be cited as the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 202X.

By order of the Board

[*date*]

## Annex A

## Amendments to the Glossary of definitions

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

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

*FIIA-prescribed limited redemption arrangements* has the meaning given in *COLL* 6.2.19AR (FIIA-prescribed limited redemption arrangements).

*redemption request* (in relation to a *long-term asset fund*) has the meaning given in *COLL* 15.8.12R(1)(b) (Dealing: redemption of units).

Amend the following definitions as shown.

*dealing day* (in *COLL*) ~~the period in a business day (in accordance with provisions of the specified in an authorised fund's prospectus) during which the ACD or the operator is open for business on which there is at least one valuation point for the purpose of issuing, selling, redeeming or cancelling units in the scheme.~~

*fund investing in inherently illiquid assets* a non-UCITS retail scheme which satisfies the conditions in (1), ~~(2)~~ and (3):

(1) either:

...

(b) at least 50% of the value of the *scheme property* has been invested in *inherently illiquid assets* for at least three continuous *months* in the last twelve *months*; and

(2) ~~the instrument constituting the fund and the prospectus do not provide for limited redemption arrangements that reflect the time typically needed to sell, liquidate or close out the inherently illiquid assets in which the non-UCITS retail scheme invests; and [deleted]~~

(3) the *scheme* is not in the process of winding up or termination.

*inherently illiquid asset* an asset which is:

...

- (3) a *transferable security* (within paragraph (2) of that definition) that is neither:
- (a) a *government and public security* denominated in the currency of the country of its *issuer*; nor
  - (b) a *security* which is ~~listed or traded on an eligible market; nor~~ would be an approved security under:
    - (i) for a non-UCITS retail scheme operating as a FAIF, COLL 5.6.5R(1) as applied by COLL 5.7.3R(2); or
    - (ii) for a non-UCITS retail scheme not within (i), COLL 5.6.5R(1);
  - (c) ~~a newly issued security which can reasonably be expected to fall within (b) when it begins to be traded; [deleted]~~
- ...
- (6) a *unit* in a *qualified investor scheme* where that *qualified investor scheme*:
- (a) ~~would itself meet condition (1) of the definition of a FIA if it were a non-UCITS retail scheme;~~ aims to invest at least 50% of the value of its scheme property in:
    - (i) one or more assets falling within any of paragraphs (1), (2), (4), (5) and (6A) to (8);
    - (ii) transferable securities which satisfy the requirements of COLL 5.2.7R (Transferable securities) that are not:
      - (A) government and public securities denominated in the currency of the country of the relevant issuer;
      - (B) securities which are regularly traded on a market which would be an eligible market if the scheme were a non-UCITS retail scheme; or
      - (C) newly issued securities which can reasonably be expected to fall within (B) within 20 business days of issue; or

- (iii) units in another *qualified investor scheme* which aims to invest at least 50% of the value of its property in assets referred to in (a)(i) or (ii); and
  - (b) ~~permits redemptions of *units* on timescales which do not reflect the time typically needed to sell, liquidate or close out the assets in which the *qualified investor scheme* invests, those assets being ones which fall within paragraphs (1) to (5) above or (6A) and (7) below; and [deleted]~~
- ...
- (6A) ~~a unit in a *long-term asset fund* where that *long-term asset fund*:~~ unless the *LTA* is in the process of winding-up or termination;
  - (a) ~~would itself meet condition (1) of the definition of a *FIA* if it were a *non-UCITS retail scheme*; and~~
  - (b) ~~is not in the process of winding up or termination;~~
- (7) ~~a unit in an open-ended *unregulated collective investment scheme* where that *unregulated collective investment scheme* which:~~ which:
  - (a) ~~aims to invest at least 50% of the value of the property of the *unregulated collective investment scheme*~~ its property in:
    - (i) one or more assets falling within any of paragraphs (1), (2) and (4) to (6A) above and (8);
    - (ii) *transferable securities* which satisfy the requirements of COLL 5.2.7R (Transferable securities) that are not:
      - (A) *government and public securities* denominated in the currency of the country of the relevant *issuer*;
      - (B) *securities* which are regularly traded on a market which would be an *eligible* market if the *scheme* were a *non-UCITS retail scheme*; or
      - (C) *newly issued securities* which can reasonably be expected to fall within

(B) within 20 business days of issue;  
or

(iii) units in another unregulated collective investment scheme which aims to invest at least 50% of the value of its property in assets referred to in (a)(i) or (ii); and

~~(b) permits redemptions of units on timescales which do not reflect the time typically needed to sell, liquidate or close out those assets; and [deleted]~~

~~(c) is not in the process of winding up or termination;~~

(8) a unit in a recognised scheme which:

(a) aims to invest at least 50% of the value of its property in:

(i) one or more assets falling within any of paragraphs (1), (2) and (4) to (7); or

(ii) transferable securities which satisfy the requirements of COLL 5.2.7R (Transferable securities) that are not:

(A) government and public securities denominated in the currency of the country of the relevant issuer;

(B) securities which are regularly traded on a market which would be an eligible market if the scheme were a non-UCITS retail scheme; or

(C) newly issued securities which can reasonably be expected to fall within (B) within 20 business days of issue; and

(b) is not in the process of winding up or termination.

*limited redemption arrangements*

(1) (in relation to an authorised fund that is not a direct dealing scheme) the arrangements operated by an authorised fund manager for the redemption of units in an authorised fund where the authorised fund manager holds itself out to redeem units in that scheme less frequently than twice in a month in accordance with COLL 6.2.19R (Limited redemption) and, where applicable, COLL 6.2.19AR (FIIA-prescribed limited redemption arrangements).

- (2) (in relation to an *authorised fund* that is a *direct dealing scheme*) the arrangements operated for the *cancellation* of *units* less frequently than twice in a *month* in accordance with *COLL 6.2.19R* (Limited redemption) and, where applicable, *COLL 6.2.19AR* (FIIA-prescribed limited redemption arrangements)).

*redemption  
determination*

(in relation to a *long-term asset fund*) has the meaning given in ~~*COLL 15.8.12R(1)*~~ *COLL 15.8.12R(1)(a)* (Dealing: redemption of units).

## Annex B

## Amendments to the Interim Prudential sourcebook for Investment Businesses (IPRU-INV)

In this Annex, underlining indicates new text.

## TP 1 Table: Transitional provisions applying to IPRU(INV)

TP 1

| (1) | (2) Material to which the transitional provision applies | (3)      | (4) Transitional provision                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | (5) Transitional provision: dates in force                                                                                                                                                    | (6) Handbook provision: coming into force                                                |
|-----|----------------------------------------------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| ... |                                                          |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                               |                                                                                          |
| 23  | ...                                                      | ...      | ...                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | ...                                                                                                                                                                                           | ...                                                                                      |
| 24  | <u>IPRU-INV 5.4.11G and IPRU-INV 5.9.1R</u>              | <u>R</u> | <p><u>(1) Paragraphs (2) and (3) apply where a <i>unit</i> in a <i>FIIA</i>:</u></p> <p><u>(a) was held by a <i>firm</i> whose permitted business includes <i>establishing, operating or winding up a personal pension scheme</i> immediately before the <i>FIIA</i> started operating with <i>limited redemption arrangements</i>; and</u></p> <p><u>(b) has not since been transferred.</u></p> <p><u>(2) Paragraph (3) applies to the determination of whether a <i>unit</i> in a <i>FIIA</i> is a standard asset.</u></p> <p><u>(3) The determination of whether a <i>unit</i> in a <i>FIIA</i> can be readily realised within 30 days may be assessed as if the period for <i>redemption</i> which applied immediately before the <i>FIIA</i> started operating with <i>limited redemption arrangements</i> continued to apply.</u></p> | <p><u>[Editor's note: insert the date on which this instrument comes into force] to [Editor's note: insert the date 3 years after the date on which this instrument comes into force]</u></p> | <p><u>[Editor's note: insert the date on which this instrument comes into force]</u></p> |

## Annex C

## Amendments to the Conduct of Business sourcebook (COBS)

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

#### 4 Communicating with clients, including financial promotions

...

#### 4.5 Communicating with retail clients (non-MiFID provisions)

...

Funds investing in inherently illiquid assets (FIAs)

- 4.5.16 R (1) This *rule* applies to any *financial promotion* relating to a *FIA non-UCITS retail scheme operating limited redemption arrangements*, except the *FIA's scheme's prospectus*.
- (2) A *firm* must ensure that the ~~following~~ *financial promotion* is accompanied by a risk warning is given in plain language which:
- “~~[Name of fund] invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.~~”
- (a) makes clear that a notice period applies when *unitholders* request a *redemption* of *units* so investors will experience a delay in receiving their money; and
- (b) explains that an investor will bear the market risk in the price of *units* during the notice period and what the implications may be for an individual investor.
- (3) ~~If the *financial promotion* is a *non-real time financial promotion*, a *firm* must ensure that the risk warning is prominently placed in the *financial promotion* in a font size that is at least equal to the predominant font size used throughout the communication~~ The risk warning must be prominent, taking into account the content, size and orientation of the *financial promotion* as a whole.

...

#### 4.5A Communicating with clients (including past, simulated past and future performance) (MiFID provisions)

...

Funds investing in inherently illiquid assets (FIAs)

- 4.5A.17 R (1) This *rule* applies to any *financial promotion* relating to a ~~FHA~~ *non-UCITS retail scheme operating limited redemption arrangements* that is addressed to, or disseminated in such a way that it is likely to be received by, a *retail client*, except the ~~FHA's~~ *scheme's prospectus*.
- (2) A *firm* must ensure that the ~~following~~ *financial promotion* is accompanied by a risk warning ~~is given:~~ in plain language which:
- “[Name of fund] invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.”
- (a) makes clear that a notice period applies when *unitholders* request a *redemption* of *units* so investors will experience a delay in receiving their money; and
- (b) explains that an investor will bear the market risk in the price of *units* during the notice period and what the implications may be for an individual investor.
- (3) ~~If the *financial promotion* is a *non-real time financial promotion*, the risk warning must be prominently placed in the *financial promotion* in a font size that is at least equal to the predominant font size used throughout the communication. The risk warning must be prominent, taking into account the content, size and orientation of the *financial promotion* as a whole.~~

...

#### TP 2 Other Transitional Provisions

TP 2

| (1) | (2) Material to which the transitional provision applies | (3) | (4) Transitional provision | (5) Transitional provision: dates in force | (6) Handbook provisions: coming into force |
|-----|----------------------------------------------------------|-----|----------------------------|--------------------------------------------|--------------------------------------------|
| ... |                                                          |     |                            |                                            |                                            |

|                    |                                                                                                                                                                     |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                             |                                                                                     |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| 2.-<br>1B          | ...                                                                                                                                                                 | ...      | ...                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | ...                                                                                                                                                                                                         | ...                                                                                 |
| <u>2.-<br/>1BA</u> | <u>COBS 4.5.16R and COBS 4.5A.17R, as amended by the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 2026</u> | <u>R</u> | <p>(1) In relation to a <i>scheme</i> authorised after [<i>Editor's note</i>: insert the date on which this instrument comes into force] which operates <i>limited redemption arrangements</i>, the <i>rules</i> specified in column (2) apply from [<i>Editor's note</i>: insert the date on which this instrument comes into force].</p> <p>(2) In relation to a <i>scheme</i> which was a <i>non-UCITS retail scheme</i> immediately before [<i>Editor's note</i>: insert the date on which this instrument comes into force] and which is required to introduce <i>limited redemption arrangements</i>, the <i>rules</i> specified in column (2) as amended by the instrument referred to in column (2) only apply from the date on which the <i>authorised fund</i> begins to operate with <i>limited redemption arrangements</i> (and the unamended <i>rules</i> continue to apply until that date).</p> <p>(3) In relation to a <i>scheme</i> which was a <i>non-UCITS retail scheme</i> and which operated <i>limited redemption arrangements</i> immediately before [<i>Editor's note</i>: insert the date on which this instrument comes into force], the <i>rules</i> specified in column (2) as amended by the instrument referred to in column (2) apply from [<i>Editor's note</i>: insert the date 6 months after the date on which this instrument comes into force].</p> | <p>From [<i>Editor's note</i>: insert the date on which this instrument comes into force] to [<i>Editor's note</i>: insert the date 18 months after the date on which this instrument comes into force]</p> | [ <i>Editor's note</i> : insert the date on which this instrument comes into force] |

|     |  |  |  |  |  |
|-----|--|--|--|--|--|
| ... |  |  |  |  |  |
|-----|--|--|--|--|--|

## Annex D

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

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

## 3 Constitution

...

### 3.2 The instrument constituting the fund

...

Table: contents of the instrument constituting the fund

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

|                                                                 |                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ...                                                             |                                                                                                                                                                                                                                                                                                                            |
| <b>Restrictions on sale, issue, cancellation and redemption</b> |                                                                                                                                                                                                                                                                                                                            |
| 13                                                              | Where relevant, the restrictions which will apply in relation to the <i>sale, issue, cancellation and redemption of units</i> under <i>COLL</i> 6.2.16R (Sale and redemption), <u><i>COLL</i> 6.2.18R (Limited issue)</u> , <u><i>COLL</i> 6.2.19R (Limited redemption)</u> and <i>COLL</i> 6.2.21R (Deferred redemption). |
| ...                                                             |                                                                                                                                                                                                                                                                                                                            |

...

## 4 Investor Relations

...

### 4.2 Pre-sale notifications

...

Table: contents of the prospectus

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

|                |
|----------------|
| ...            |
| <b>Dealing</b> |

|     |                            |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17  | The following particulars: |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                    |
|     | ...                        |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                    |
|     | (g)                        | the circumstances and procedures for the limitation or deferral of <i>redemptions</i> or <i>cancellations</i> in accordance with <i>COLL</i> 6.2.19R (Limited redemption) or <i>COLL</i> 6.2.21R (Deferred redemption); <sub>2</sub> <u>including:</u> |                                                                                                                                                                                                                                                                                                                                                                                                    |
|     |                            | (i)                                                                                                                                                                                                                                                    | <u>the normal period that <i>unitholders</i> will need to wait from when the <i>authorised fund manager</i> accepts a <i>unitholder's</i> instruction to <i>redeem</i> or <i>cancel units</i> in the <i>authorised fund</i> to payment of the appropriate proceeds of <i>redemption</i> or <i>cancellation</i> to the <i>unitholder</i>, including the length of any notice period or cut-off;</u> |
|     |                            | (ii)                                                                                                                                                                                                                                                   | <u>(if applicable) the circumstances and periods in which:</u>                                                                                                                                                                                                                                                                                                                                     |
|     |                            |                                                                                                                                                                                                                                                        | (A) <u>the execution of a <i>redemption</i> or <i>cancellation</i> request may be deferred;</u>                                                                                                                                                                                                                                                                                                    |
|     |                            |                                                                                                                                                                                                                                                        | (B) <u>the payment of <i>redemption</i> proceeds may be deferred; or</u>                                                                                                                                                                                                                                                                                                                           |
|     |                            |                                                                                                                                                                                                                                                        | (C) <u>a limit on the value or number of <i>units</i> that can be <i>redeemed</i> or <i>cancelled</i> may be applied, and</u>                                                                                                                                                                                                                                                                      |
|     |                            |                                                                                                                                                                                                                                                        | <u>the effect on the <i>unitholder</i> of a deferral in (A) or (B) or a limitation in (C); and</u>                                                                                                                                                                                                                                                                                                 |
|     |                            | (iii)                                                                                                                                                                                                                                                  | <u>that the effect of any notice period may be extended when <i>dealings in units</i> of the <i>scheme</i> are suspended in accordance with <i>COLL</i> 7.2 (Suspension and restart of <i>dealings</i>);</u>                                                                                                                                                                                       |
|     | ...                        |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                    |
| ... |                            |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                    |

...

### 4.3 Approvals and notifications

...

Guidance on fundamental changes

#### 4.3.5 G ...

- (2) For the purpose of *COLL* 4.3.4R(2)(a) to *COLL* 4.3.4R(2)(c) a fundamental change to a *scheme* is likely to include:

...

- (f) the introduction of *limited redemption arrangements* for a non-UCITS retail scheme that is not a FIIA.

Significant change requiring pre-event notification

4.3.6 R (1)

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

- (b) The time between giving written notice to *unitholders* and the proposed change coming into effect must be no less than the minimum period specified in (3) or, where applicable, (4).

...

- (3) ~~The notice~~ Subject to (4), the minimum period in (1) must be of a reasonable length (and must not be less than 60 days).

- (4) Where the *authorised fund manager* operates *limited redemption arrangements*, the minimum period must not be less than the sum of:

- (a) 60 days; and

- (b) the number of days specified in the *prospectus* as a notice period or cut-off for the purpose of *COLL* 4.2.5R(17)(g)(i) (Table: contents of the *prospectus*).

Guidance on significant changes

4.3.7 G ...

- (2) For the purpose of *COLL* 4.3.6R a significant change is likely to include:

...

- (c) an increase in the *preliminary charge* where *units* are purchased through a *group savings plan*; ~~or~~

- (d) a change in the *pricing* arrangements for *units* of the *scheme* so as to cause a *single-priced authorised fund* to become a *dual-priced authorised fund*, or vice versa; or

- (e) the introduction by a FIIA of FIIA-prescribed limited redemption arrangements, but see COLL TP 1.70R(2).

...

...

## 5 Investment and borrowing powers

...

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

...

#### Purpose

5.7.2 G ...

- (2) One example of the different investment and borrowing powers under the *rules* in this section for *non-UCITS retail schemes* operating as *FAIFs* is the power to invest up to 100% of the value of the *scheme property* in *schemes* to which COLL 5.7.7R (Investment in collective investment schemes) applies. ~~A~~ Where a *non-UCITS retail scheme* operating as a *FAIF* is ~~not able to hold more than 50% of its *scheme property* in *units of long-term asset funds* unless it operates *limited redemption arrangements* in accordance with COLL 5.7.7R(3)(c) (Investment in collective investment schemes) and COLL 6.2.19R (Limited redemption) a *FIIA*, it must operate *FIIA-prescribed limited redemption arrangements*.~~

...

...

#### Investment in collective investment schemes

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

...

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

...

- (3) In relation to (1)(c), the conditions are that:

- (a) the *authorised fund manager* of the *non-UCITS retail scheme* operating as a *FAIF* is satisfied that the *long-term asset fund's* liquidity, *redemption* policy and *dealing* arrangements are sufficient for the *non-UCITS retail scheme* to be able to meet its obligations in respect of *redemptions*; and
- (b) if relevant, the *authorised fund manager* ensures that the *non-UCITS retail scheme's* holdings of *units* of different *long-term asset funds* are diversified enough so that it can meet its obligations in respect of *redemptions*; and
- (c) ~~where the *non-UCITS retail scheme* invests more than 50% of the value of the *scheme property* in *units* of second *schemes* that are *long-term asset funds*, the *non-UCITS retail scheme* operates *limited redemption arrangements* that:~~ [deleted]
  - (i) ~~enable it to meet its obligations in respect of *redemptions*; and~~
  - (ii) ~~are consistent with (a) and (b).~~

#### Investment in long-term asset funds: guidance

- 5.7.7A G (1) ~~Under COLL 5.7.7R(3)(c), a *non-UCITS retail scheme* operating as a *FAIF* will need to operate *limited redemption arrangements* where it invests more than the 50% of the value of the *scheme property* in second *schemes* that are *long-term asset funds*. The *FCA* expects this to be where:~~ [deleted]
- (a) ~~the investment objective and investment policy set out in the *non-UCITS retail scheme's prospectus* aim to invest at least 50% of the value of the *scheme property* in *units* of *long-term asset funds*; or~~
  - (b) ~~at least 50% of the value of the *scheme property* of the *non-UCITS retail scheme* has been invested in *long-term asset funds* for at least 3 continuous *months* in the last 12 *months*.~~
- ...
- (3) Where a *non-UCITS retail scheme* operating as a *FAIF* is a *FIIA*, it will need to operate *FIIA-prescribed limited redemption arrangements*. In practice, and having regard to the liquidity of other assets, compliance with ~~this rule~~ COLL 5.7.7R may require ~~the~~ such a *non-UCITS retail scheme* to operate *limited redemption arrangements* even in circumstances where less than 50% of the value of the *scheme property* is invested in second *schemes* ~~that~~

are long-term asset funds, the units of which are inherently illiquid assets.

...

## 6 Operating duties and responsibilities

...

### 6.2 Dealing

...

Purpose

6.2.2 G ...

(3) ...

(3A)

(a) This section sets out the *limited redemption arrangements* that an *authorised fund manager* must operate in relation to a *FIIA* in accordance with *COLL 6.2.19R* (Limited redemption) and *COLL 6.2.19AR* (FIIA-prescribed limited redemption arrangements). The purpose of these arrangements is to ensure that the *redemption policy* of the *FIIA* better reflects its liquidity profile given the time typically needed to sell, liquidate or close out *inherently illiquid assets*. These arrangements may also be operated by the *authorised fund manager* of other types of *non-UCITS retail scheme*.

(b) The *rules* relating to *limited redemption arrangements* which apply to a *FIIA* require the *authorised fund manager* to ensure that, under such arrangements:

(i) the *authorised fund* does not have a *dealing day* for *redemptions* more frequently than once a *month*; and

(ii) the start of the notice period after receiving and accepting a *redemption* or *cancellation* request is at least 90 *days* before the *dealing day* for the *redemptions* or *cancellations* to which the request relates.

...

...

## Sale and redemption

6.2.16 R ...

(3A) ...

(3B) Where the authorised fund manager of a non-UCITS retail scheme operating limited redemption arrangements receives and accepts a request from a qualifying unitholder to redeem or cancel units, the request is irrevocable unless the authorised fund manager:

(a) otherwise agrees; and

(b) is satisfied that revocation of the request to redeem units would not prejudice the interests of other unitholders in the scheme.

...

(5A) ~~Where a~~ any non-UCITS retail scheme operating as a FAIF operates limited redemption arrangements, the period in (4) expires no later than the expiry of a period of 185 days from the date of receipt and acceptance of the instruction to redeem.

...

(7) Where the authorised fund operates limited redemption arrangements, the authorised fund manager must:

(a) sell or redeem units at a price determined no later than the expiry of a period of 185 182 days from the date of the receipt and acceptance of the instruction to sell or redeem; and

(b) determine the price for the units being redeemed or cancelled at the first valuation point following the end of any notice period provided for in the instrument constituting the fund and specified in the prospectus.

(7A) Where the authorised fund operates limited redemption arrangements, the person responsible for the issue and cancellation of units in a direct dealing scheme must:

(a) issue or cancel them at a price determined no later than the expiry of a period of 185 182 days from the date of the receipt and acceptance of the instruction to issue or cancel; and

(b) determine the price for the units being redeemed or cancelled at the first valuation point following the end of

any notice period provided for in the *instrument constituting the fund* and specified in the *prospectus*.

...

Sale and redemption: guidance

6.2.17 G ...

- (2) Where the *authorised fund* operates *limited redemption arrangements*, the cut-off point may need to reflect the expected length of time required to undertake transactions in the ~~underlying investments~~ scheme property, provided the ~~185-day~~ 182-day limit in *COLL 6.2.16R(7)* or *COLL 6.2.16R(7A)* (Sale and redemption) is complied with.

...

...

Limited redemption

- 6.2.19 R (1) The *instrument constituting the fund* and the *prospectus* of a *non-UCITS retail scheme* ~~operating as a FIAF, or that invests substantially in immovables or whose investment objective is to provide a specified level of return;~~

(a) must, in the case of a FIIA; and

(b) may, in any other case,

provide for *limited redemption arrangements* appropriate to its ~~aims and objectives~~ investment objective, policy and strategy.

...

- (4) ...

- (5) The *authorised fund manager* must accept a request to *redeem* or *cancel units* in the *authorised fund* in accordance with any conditions in the *instrument constituting the fund* and the *prospectus*, unless the *authorised fund manager* has reasonable grounds to refuse a request.

- (6) The *limited redemption arrangements* which the *authorised fund manager* of a FIIA must operate are specified in *COLL 6.2.19AR* (FIIA-prescribed limited redemption arrangements).

- (7) The *authorised fund manager* of a *non-UCITS retail scheme* which is not a FIIA may operate *limited redemption arrangements* including *FIIA-prescribed limited redemption arrangements*.

FIIA-prescribed limited redemption arrangements

- 6.2.19 A R The *limited redemption arrangements* which must be operated by the *authorised fund manager* of a *FIIA* in accordance with *COLL* 6.2.19R(6) ('*FIIA-prescribed limited redemption arrangements*') are as follows:
- (1) The *authorised fund manager* must not have a *dealing day* for *redemptions* or *cancellations* more frequently than once a *month*.
  - (2) The start of the notice period after receiving and accepting a *redemption* or *cancellation* request must be at least 90 *days* before the *dealing day* for *redemptions* or *cancellations* to which the request relates.
  - (3) On acceptance of the request to *redeem* or *cancel units*, the *authorised fund manager* must confirm to the *unitholder* the dates on which it is expected that the request will be effected and the appropriate proceeds paid.
  - (4) If the *instrument constituting the fund* and the *prospectus* permit a request to *redeem* or *cancel units* to be deferred or limited, those arrangements must not result in the *FIIA* having more than one *dealing day* a *month* for *redemptions*.

## Limited redemption: guidance

- 6.2.20 G (1) The conditions for *limited redemption arrangements* in *COLL* 6.2.19R should be considered, for *AUTs* and *ACs* as well as for *ICVCs*, in conjunction with *PERG* 9 (Meaning of an open-ended investment company) and *PERG* 9.8 (The investment condition: the 'expectation test' (section 236(3)(a) of the *Act*)).
- (2)
- (a) The *authorised fund manager* of a *FIIA* is required:
    - (i) not to *redeem* or *cancel units* more frequently than once a *month*; and
    - (ii) to ensure that there are at least 90 *days* between the acceptance of any request to *redeem* or *cancel units* and the *dealing day* to which the request relates.
  - (b) However, the appropriateness of:
    - (i) the frequency at which *redemption* or *cancellation* requests may be accepted; and
    - (ii) the length of the period between acceptance of the request to *redeem* or *cancel* and the *dealing day*,

will depend on the reasonable expectations of the target investor group and the particular investment objective, policy and strategy of the *scheme*.

- (c) In determining the frequency and length of the period referred to in (b), the *authorised fund manager* should have regard to the obligation of a *full-scope UK AIFM* to ensure that the investment strategy, liquidity profile and redemption policy of each *AIF* it manages are consistent.

(3)

- (a) Where a *FIIA* has more than one *class* of *unit*, the *FIIA-prescribed limited redemption arrangements* need not apply to a conversion of *units*.
- (b) If a transfer of title to *units* in the *FIIA* is allowed, the *FIIA-prescribed limited redemption arrangements* should not apply to the recording of such a transfer in the *register*.
- (c) Further specific requirements apply where *dealings* in *units* of a *FIIA* are suspended under the *rules* in *COLL 7.2* (Suspension and restart of *dealings*) (see *COLL 7.2.1-AR*).

6.2.20  
A

G

- (1) Where a *scheme* has material exposure to *inherently illiquid assets*, but less than 50% of the value of the *scheme property* is invested in *inherently illiquid assets*, it is not a *FIIA*.
- (2) Although there is no requirement to use *FIIA-prescribed limited redemption arrangements* in these circumstances, the *authorised fund manager* should nevertheless ensure that the *redemption* policy of the *scheme* is consistent with its investment strategy and liquidity profile. As such, in many cases it may be appropriate to introduce *limited redemption arrangements*, with or without a notice period, to ensure that the *authorised fund manager* can effectively manage the liquidity of the *scheme*.
- (3) However, where the requirement to use *FIIA-prescribed limited redemption arrangements* does not apply, the *authorised fund manager* would have the flexibility (subject to the limits in *COLL 6.2.16R(5A), (7) and (7A)*) to decide the length of any notice period and a *redemption* frequency that is appropriate to the nature of assets in which the *scheme* invests and its investor base.

Deferred redemption

6.2.21

R

...

- (1A) Subject to (3), the *instrument constituting the fund* and the *prospectus* of a *non-UCITS retail scheme* operating as:

- (a) a FAIF which does not operate *limited redemption arrangements*; or
- (b) any *non-UCITS retail scheme* which operates *limited redemption arrangements*,

may permit deferral of *redemptions* or (in the case of a *direct dealing scheme*) *cancellations* at a *valuation point* to a following *valuation point* where the requested *redemptions* or *cancellations* exceed 10%, or some other reasonable proportion disclosed in the *prospectus*, of the *authorised fund's* value.

(1B) The reference in (1A) to ‘a following *valuation point*’ is:

- (a) in relation to a FAIF which does not operate *limited redemption arrangements*, a *valuation point* no later than one month after the *valuation point* at which the request should have been carried out; and
- (b) in relation to any *non-UCITS retail scheme* which operates *limited redemption arrangements*, the next *valuation point* which must be at least one month after the *valuation point* at which the request should have been carried out.

...

- (3) ~~Any~~ In relation to a FAIF which does not operate *limited redemption arrangements* and any other *non-UCITS retail scheme* which operates *limited redemption arrangements*, any deferral under (1A) is subject to the ~~limitations~~ 185-day limit on payments to *unitholders* referred to in COLL 6.2.16R(5A).

...

...

## 7 Suspension of dealings and termination of authorised funds

### 7.1 Introduction

...

Table of application

7.1.2 R This table belongs to COLL 7.1.1R.

| <i>Rule</i> | <i>ICVC</i> | <i>ACD</i> | <i>Any other directors</i> | <i>Depositary of an ICVC</i> | <i>Authorised fund manager of</i> | <i>Depositary of an AUT or ACS</i> |
|-------------|-------------|------------|----------------------------|------------------------------|-----------------------------------|------------------------------------|
|             |             |            |                            |                              |                                   |                                    |

|                  |          |                                                                                                                                                                | of an<br><i>ICVC</i> |          | an <i>AUT</i> or<br><i>ACS</i> |     |
|------------------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------|--------------------------------|-----|
| ...              |          |                                                                                                                                                                |                      |          |                                |     |
| 7.2.1            | ...      | ...                                                                                                                                                            | ...                  | ...      | ...                            | ... |
| <u>7.2.1-AR*</u> | <u>x</u> | <u>x</u>                                                                                                                                                       |                      | <u>x</u> | <u>x</u>                       | x   |
| ...              |          |                                                                                                                                                                |                      |          |                                |     |
| Notes            | ...      |                                                                                                                                                                |                      |          |                                |     |
|                  | (5)      | ...                                                                                                                                                            |                      |          |                                |     |
|                  | (6)      | <u><i>COLL 7.2.1-AR applies only to the authorised fund manager and depositary of a non-UCITS retail scheme operating limited redemption arrangements.</i></u> |                      |          |                                |     |

...

## 7.2 Suspension and restart of dealings

### Requirement

- 7.2.-3 R (1) ~~This~~ Subject to *COLL 7.2.1-AR*, ~~this~~ rule applies to the *authorised fund manager* of a *non-UCITS retail scheme* if at any time:
- ...
- ...
- 7.2.-2 R (1) ~~This~~ Subject to *COLL 7.2.1-AR*, ~~this~~ rule applies where the *authorised fund manager* of a *non-UCITS retail scheme* is required to temporarily suspend *dealings* in *units* in the *authorised fund* under *COLL 7.2.-3R(2)* or *COLL 7.2.-1R(3)*.
- ...
- 7.2.-1 R (1) ~~This~~ Subject to *COLL 7.2.1-AR*, ~~this~~ rule applies where the *authorised fund manager* and the *depositary* agree that *dealings* in *units* in the *authorised fund* should continue under *COLL 7.2.-3R(3)* and, if relevant, following a review under this *rule*.
- ...
- 7.2.1 R (1) The *authorised fund manager* may, with the prior agreement of the *depositary*, and must without delay, if the *depositary* so requires, temporarily suspend the *issue, cancellation, sale* and *redemption* of *units* in an *authorised fund* (subject to *COLL 7.2.1-AR*, referred to in

this chapter as “*dealings in units*”), where due to exceptional circumstances it is in the interest of all the *unitholders* in the *authorised fund*. Where an *authorised fund* is a *regulated money market fund*, the *authorised fund manager* must ensure that any such suspensions are consistent with the *Money Market Funds Regulation*. Where the *authorised fund* operates *limited redemption arrangements*, the *authorised fund manager* must ensure that any such suspensions comply with COLL 7.2.1-AR.

...

- (3) ~~During~~ Subject to COLL 7.2.1-AR, during a suspension:

...

...

7.2.1-  
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R

- (1) Paragraphs (2) to (5) apply in relation to an *authorised fund* operating *limited redemption arrangements* where *dealings in units* are suspended under COLL 7.2-3R, COLL 7.2-1R or COLL 7.2.1R.
- (2) The *authorised fund manager*:
- (a) must be willing to accept a request to *redeem units* made after the beginning of a suspension under the *rules* in this section; and
- (b) must accept such a request to *redeem units* unless it has reasonable grounds for refusing to do so.
- (3) Where the *authorised fund manager* accepts a request to *redeem units* before or after the beginning of a suspension of *dealings in units* under the *rules* in this section, any *days on which dealings in units* of the *authorised fund* are suspended count towards the completion of any applicable notice period.
- (4) If suspension of the *authorised fund* continues beyond the end of any applicable notice period for the *redemption* or *cancellation* request, the *authorised fund manager* must determine the *price* for the relevant *units* at the first *valuation point* after the restart of *dealings in units*.
- (5) The *rules* in this section apply as follows:
- (a) references to ‘*dealings in units*’ (see COLL 7.2.1R(1)) are to be construed in accordance with paragraphs (2) to (4) and (5)(b) to (d) of this *rule*;
- (b) references to an ‘*applicable notice period*’ are to the period between the acceptance of the request to *redeem* or *cancel* and the date on which the request is effected;

- (c) the details which the *authorised fund manager* must publish under *COLL 7.2.-2R(3)(d)* or *COLL 7.2.1R(2C)* to keep *unitholders* appropriately informed include:
  - (i) the start of the suspension and, if known, its likely duration; and
  - (ii) the effect of the suspension on the *sale, issue, redemption or cancellation of units* in the *authorised fund*; and
- (d) the obligations in *COLL 6.2 (Dealing)* apply to the extent necessary to comply with paragraphs (2) to (4) and (5)(a) to (c).

...

## Guidance

- 7.2.2 G (-1) The *guidance* in (1); and (1A) and (1B) does not apply in circumstances where an *authorised fund manager* is required to temporarily suspend *dealings* in *units* in an *authorised fund* under *COLL 7.2.-3R* or *COLL 7.2.-1R*.

...

- (1A) ~~Except in the case of *FILAs* (for which see (1B) below), difficulties~~ Difficulties in realising ~~scheme~~ *scheme* assets or temporary shortfalls in liquidity may not on their own be sufficient justification for suspension. In such circumstances the *authorised fund manager* and *depository* would need to be confident that suspension could be demonstrated genuinely to be in the best interests of the *unitholders*. Before an *authorised fund manager* and *depository* determine that it is in the best interests of *unitholders* to suspend *dealing*, they should ensure that any alternative courses of action have been discounted.
- (1B) ~~In the case of *FILAs*, there may be circumstances where suspension is genuinely in the best interests of *unitholders*; for example, where orders received for *redemptions* of *units* at the next valuation period cannot be executed without significantly depleting the *scheme's* liquidity, and/or without selling *scheme property* at a substantial discount to its open market value. [deleted]~~

...

...

## 15 Long-term asset funds

...

### 15.4 Prospectus and other pre-sale notifications

...

Table: contents of a long-term asset fund prospectus

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

|           |                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| ...       |                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
| <b>16</b> | <b>Dealing</b>                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
|           | The procedure and conditions for the <i>issue, sale, redemption</i> and <i>cancellation</i> of <i>units</i> or <i>shares</i> including details of the following, in fair, clear and plain language, using worked examples to explain how these procedures might apply to <i>unitholders</i> in practice: |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
|           | ...                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
|           | (4)                                                                                                                                                                                                                                                                                                      | the steps required to be taken by a <i>unitholder</i> for <i>units</i> in the <i>long-term asset fund</i> to be <i>redeemed</i> or <i>cancelled</i> (see <i>COLL</i> 15.8.12R (Dealing: redemption of units)), using worked examples to explain how these arrangements may affect <i>unitholders</i> in the <i>scheme</i> , including: |                                                                                                                                                                                                                                                                                    |  |
|           |                                                                                                                                                                                                                                                                                                          | ...                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                    |  |
|           |                                                                                                                                                                                                                                                                                                          | (d)                                                                                                                                                                                                                                                                                                                                    | that once the <i>authorised fund manager</i> has accepted a <i>unitholder's</i> request to <i>redeem units</i> in the <i>LTAF</i> it is <del>irrevocable and they will not be able to withdraw that request</del> <u>cannot be revoked unilaterally by the <i>unitholder</i></u> ; |  |
|           | ...                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |
| ...       |                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                    |  |

...

### 15.8 Valuation, pricing, dealing and income

...

Dealing: redemption of units

15.8.12 R (1)

- (a) ~~In this rule, a~~ A ‘redemption determination’ is a determination by the *authorised fund manager* of a *long-term asset fund* to:
- (a) (i) ~~accept a request by a unitholder to redeem units in the scheme~~ accept a request by a unitholder to redeem units in the scheme redemption request;
  - (b) (ii) ~~refuse a redemption request~~ refuse a redemption request (see paragraph (2)(c) (1)(b)); or
  - (c) (iii) ~~make such other determination in relation to the redemption request~~ make such other determination in relation to the redemption request as may be provided for in the *instrument constituting the fund* and the *prospectus* (see paragraph (6) below, and *COLL 15.8.13G*(6) and (7)).
- (b) A ‘redemption request’ is a request by a qualifying unitholder:
- (i) for the authorised fund manager to redeem units in the scheme; or
  - (ii) (in relation to a direct dealing scheme) to have units in the scheme cancelled.
- (2) The *redemption* arrangements for a *long-term asset fund* must ensure the following:
- (a) ~~A unitholder must be able to submit a request to redeem units~~ A unitholder must be able to submit a request to redeem units redemption request before the next date on which the *authorised fund manager* makes a *redemption determination*, subject to any cut-off point which may be specified in the *prospectus* for this purpose.
  - ...
  - (c) The *authorised fund manager* must accept a *unitholder’s* ~~request to redeem units in the scheme~~ request to redeem units in the scheme redemption request in accordance with any conditions in the *instrument constituting the fund* and the *prospectus* unless the *authorised fund manager* has reasonable grounds to refuse the *redemption request*.
  - ...
  - (e) If the *authorised fund manager* accepts the *unitholder’s* ~~request to redeem units in the scheme~~ request to redeem units in the scheme redemption request:
    - (i) the ~~redemption request~~ redemption request is deemed to be irrevocable unless the authorised fund manager:

- (A) agrees otherwise; and
  - (B) is satisfied that revocation of the *redemption request* would not prejudice the interests of other *unitholders* in the *scheme*;
- (ii) the *authorised fund manager* must undertake to effect the *redemption* or (in the case of a *direct dealing scheme*) arrange for the *cancellation* of *units* at the applicable time, in accordance with any conditions in the *instrument constituting the fund* and the *prospectus*; and
- (iii) the *authorised fund manager* must confirm to the *unitholder*:
  - (A) that the ~~*redemption request*~~ *redemption request* has been accepted and cannot be revoked unilaterally by the *unitholder*; and
  - (B) having regard to the period specified for the purposes of (f), the dates on which it is expected that the ~~*redemption request*~~ *redemption request* will be effected and the appropriate proceeds paid.
- (f) The *authorised fund manager* must determine the *price* for the *units* being *redeemed* or (in the case of a *direct dealing scheme*) *cancelled* pursuant to the *unitholder's* ~~*redemption request*~~ *redemption request* at the first *valuation point* following the end of the notice period specified in the *instrument constituting the fund* and the *prospectus* (the 'notice period').
- (g) The notice period must ~~be~~ end at least 90 *days* after the *day* on which the ~~request to redeem units in the scheme~~ *redemption request* was accepted.
- (h) The *authorised fund manager* must *redeem* the *units* or (in the case of a *direct dealing scheme*) arrange for the *units* to be *cancelled* at the *price* determined in accordance with (f) and pay the *unitholder*, or arrange for payment to the *unitholder* of, the appropriate proceeds of *redemption* in accordance with paragraphs (4) and (5).
- (3) Subject to COBS 2.1.4R (AIFMs' best interests rule), COLL 6.2.7AR(5) (Issue and cancellation of units by a direct dealing scheme) (as applied by COLL 15.8.5R) and COLL 15.3.2R (Classes of unit), where the *long-term asset fund* has more than one *class* of *unit*, the arrangements for the *redemption* or (in the case of a *direct dealing scheme*) the *cancellation* of *units* may differ between *classes*

provided the arrangements for all *classes* of *unit* ensure the matters specified in (2).

- (4) After having effected a ~~redemption request~~ *redemption request*, the *authorised fund manager* must pay<sub>2</sub> or arrange for the payment of<sub>2</sub> the full proceeds of the *redemption* to the *unitholder* within any reasonable period specified in the *prospectus*, unless it has reasonable grounds for withholding payment or requiring payment to be withheld.

...

- (6) If the *instrument constituting the fund* and the *prospectus* of a *long-term asset fund* permit the *authorised fund manager* to defer or limit a ~~requested redemption~~ *redemption request*, those arrangements must not result in:

...

...

## TP 1 Transitional Provisions

### TP 1.1

| (1)                                                                                                                                             | (2) Material to which the transitional provision applies                                                                                        | (3)      | (4) Transitional provision                                                                                                                                                                                                                                                                                                                    | (5) Transitional provision: dates in force                                                                                                | (6) Handbook provision: coming into force                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| ...                                                                                                                                             |                                                                                                                                                 |          |                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                           |                                                                                        |
| 69                                                                                                                                              | ...                                                                                                                                             | ...      | ...                                                                                                                                                                                                                                                                                                                                           | ...                                                                                                                                       | ...                                                                                    |
| <b><u>Amendments made by the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 202X</u></b> |                                                                                                                                                 |          |                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                           |                                                                                        |
| <u>70</u>                                                                                                                                       | <u>The rules and guidance in COLL amended by the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements)</u> | <u>R</u> | (1) Subject to <i>COLL</i> TP 1.1.71R and <i>COLL</i> TP 1.1.72R, in relation to a pre-existing <i>non-UCITS retail scheme</i> which is required to introduce <i>limited redemption arrangements</i> , the provisions specified in column (2) apply:<br><br>(a) from <u>[Editor's note: insert the date 18 months after the date on which</u> | <u>From [Editor's note: insert the date on which this instrument comes into force] to [Editor's note: insert the date 18 months after</u> | <u>From [Editor's note: insert the date on which this instrument comes into force]</u> |

|           |                                                                                                                                                 |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                          |                                                                                          |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
|           | <u>Instrument 202X</u>                                                                                                                          |          | <p>this instrument comes into force]; or</p> <p>(b) (if the <i>scheme</i> starts to operate with <i>limited redemption arrangements</i> before the date in (a)) from the date on which the <i>scheme</i> starts to operate such <i>limited redemption arrangements</i>.</p> <p>(2) In this <i>rule</i> and <i>COLL</i> TP 1.1.70R to <i>COLL</i> TP 1.1.73R, a ‘pre-existing <i>non-UCITS retail scheme</i>’ means a <i>scheme</i> which was a <i>non-UCITS retail scheme</i> immediately before [<i>Editor’s note</i>: insert the date on which this instrument comes into force].</p> | the date on which this instrument comes into force]                                                                                                                                                      |                                                                                          |
| <u>71</u> | <u>COLL 4.3.6R as amended by the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 202X</u> | <u>R</u> | Where the <i>authorised fund manager</i> of a pre-existing <i>non-UCITS retail scheme</i> is required to give notice to <i>unitholders</i> under <i>COLL 4.3.6R</i> in relation to the introduction of <i>limited redemption arrangements</i> , the minimum period specified in <i>COLL 4.3.6R(4)</i> must not be less than 12 <i>months</i> .                                                                                                                                                                                                                                          | From [ <i>Editor’s note</i> : insert the date on which this instrument comes into force] to [ <i>Editor’s note</i> : insert the date 18 months after the date on which this instrument comes into force] | From [ <i>Editor’s note</i> : insert the date on which this instrument comes into force] |
| <u>72</u> | <u>The following rules and guidance in COLL (which are not amended by the Funds Investing in Inherently</u>                                     | <u>R</u> | Where a pre-existing <i>non-UCITS retail scheme</i> was not a <i>FIIA</i> immediately before [ <i>Editor’s note</i> : insert the date on which this instrument comes into force] but is a <i>FIIA</i> after that date, the provisions specified in column (2) apply to the                                                                                                                                                                                                                                                                                                              | From [ <i>Editor’s note</i> : insert the date on which this instrument comes into force] to [ <i>Editor’s</i>                                                                                            | From [ <i>Editor’s note</i> : insert the date on which this instrument comes into force] |

|    |                                                                                                                                                                                                                                                                                                                                                                                                                    |   |                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                               |                                                                                               |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
|    | <p><u>Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 202X):</u></p> <ul style="list-style-type: none"> <li>• <u>COLL 6.6.3CR;</u></li> <li>• <u>COLL 6.6.3DG;</u></li> <li>• <u>COLL 6.6.3ER;</u></li> <li>• <u>COLL 6.6.3FR;</u></li> <li>• <u>COLL 6.6.4BR;</u></li> <li>• <u>COLL 6.6.4CR;</u></li> <li>• <u>COLL 6.6.4DG;</u></li> <li>and</li> <li>• <u>COLL 6.6.11G.</u></li> </ul> |   | <p><u>authorised fund manager and the depositary from [Editor's note: insert the date 6 months after the date on which this instrument comes into force].</u></p>                                                                                                                                                                                                                                           | <p><u>note: insert the date 6 months after the date on which this instrument comes into force]</u></p>                                        |                                                                                               |
| 73 | <p><u>The following rules and guidance in COLL, as amended by the Funds Investing in Inherently Illiquid Assets (Prescribed Limited Redemption Arrangements) Instrument 202X:</u></p> <ul style="list-style-type: none"> <li>• <u>COLL 3.2.6R;</u></li> <li>• <u>COLL 4.2.5R;</u></li> <li>• <u>COLL 4.3.6R;</u></li> <li>• <u>COLL 6.2.16R(3 B);</u></li> </ul>                                                   | R | <p><u>In relation to a pre-existing non-UCITS retail scheme which operated limited redemption arrangements immediately before [Editor's note: insert the date on which this instrument comes into force] and which was not and is not a FIIA, the provisions specified in column (2) apply from [Editor's note: insert the date 6 months after the date on which this instrument comes into force].</u></p> | <p><u>From [Editor's note: insert the date on which this instrument comes into force] to [Editor's note: 6 months after commencement]</u></p> | <p><u>From [Editor's note: insert the date on which this instrument comes into force]</u></p> |

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|--|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|
|  | <ul style="list-style-type: none"> <li>• <u>COLL</u><br/><u>6.2.16R(5</u><br/><u>A);</u></li> <li>• <u>COLL</u><br/><u>6.2.16R(7</u><br/><u>A);</u></li> <li>• <u>COLL</u><br/><u>6.2.17G;</u></li> <li>• <u>COLL</u><br/><u>6.2.19R;</u></li> <li>• <u>COLL</u><br/><u>6.2.20AG;</u></li> <li>• <u>COLL</u><br/><u>6.2.21R;</u><br/><u>and</u></li> <li>• <u>COLL</u><br/><u>7.2.-3R to</u><br/><u>COLL</u><br/><u>7.2.1-AR.</u></li> </ul> |  |  |  |  |
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