Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: UKLA TN424.1 – Removal from the Official List of listed equity shares of individual funds of Open-Ended Investment Companies (OEICs)

Lead regulator: FCA

Date of assessment: May 2017

Commencement date: March 2017

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? National

Brief outline of proposed new or amended regulatory activity

Companies listed on the Official List (and typically admitted to the LSE's Main market) are subject to a number of rules when joining the market, continuing obligations governing conduct, disclosure rules on an ongoing basis and on an ad-hoc basis when they issue further securities. The rules are set out in the FCA's Listing Rules, prospectus Rules and Disclosure and Transparency Rules. There are additional directly applicable requirements set out in European regulations, notably MAR.

The UKLA's Technical Notes and Procedural Notes are short guidance notes intended to provide additional clarity to listed companies and their advisers as to how the FCA interprets provisions in these rulebooks. The FCA typically issues these when it has received a number of questions on the same topic, or other market feedback. The guidance provided in this note is new guidance, which was subject to public consultation and finalised in March 2017. The objective of this new guidance is to clarify our rules and help firms to have a better understanding about application of those rules.

Open ended investment companies (as defined by S236 of FSMA) are collective investment schemes managed on behalf of a company with the aim of spreading investment risk and managing funds on behalf of its investors. An OEIC will often have a number of listed sub-funds similar to a commercial company who has a number of listed classes of shares. Unlike a commercial company, an OEIC's articles of association allow it to redeem the shares when a sub-fund is closed.

There is no specific Listing Rule which dictates how an OEIC admitted to the Official List can remove an individual sub-fund. The technical note clarifies that where listed shares of a sub-fund of an OEIC have matured or ceased to exist, the FCA will follow the administrative procedure outlined in DEPP 2.5.11G for removal of securities that have matured or otherwise ceased to exist. This contrasts with a commercial company which would have to produce a circular and obtain shareholder prior to the removal of a class of listed equity shares.

The purpose of the technical note is to clarify existing practice and not to impose a new procedure carried out by the FCA.

Which type of business will be affected? How many are estimated to be affected?

This guidance applies to all OEICs with a premium listing of equity shares on the Official List (around 12 OEICs with a total of 274 sub-funds). In practice, only a subset of these will be affected by this guidance as the frequency that companies wish to remove an individual sub-fund from the Official List will vary.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2017	March 2017	0	0	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

Note – for all cost estimates below we have assumed the changes will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

We expect that all of the approximately 12 OEICs would find it helpful to familiarise themselves with the 1 page guidance note. For the approximately 12 OEICs on the Official List who may find it helpful to familiarise themselves with the guidance, we would expect that the note would take approximately 30 minutes to read, digest, and disseminate to any relevant members of staff, and, if necessary, update the relevant procedure to reflect the guidance.

This is an estimate of the maximum amount of time it might take an OEIC, as the 1 page note provides clarification in relation to how OEICs can remove a sub-fund through an administrative procedure. At the estimated rate of £48/ hour, the total estimated cost for all 12 OEICs would be £3001.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score

[1] We arrived at the 30 minute estimate based on the following calculation. The 1 page technical note contains approximately 360 words. The speed of reading technical text is 50-100 words per minute based on EFTEC (2013), "Evaluating the cost savings to business revised EA guidance - method paper" and the time remaining to digest, disseminate the information and if necessary update the relevant procedures is based on our broader supervisory knowledge of how firms respond to our Technical Notes and also on supervisory conversations with firms about their procedures relating to this specific issue.