FINANCIAL CONDUCT AUTHORITY

Authorised fund applications – our expectations

February 2025

About this document

This information is for firms applying for collective investment schemes to be authorised as:

- authorised unit trusts (AUTs)
- authorised contractual schemes (ACSs),
- authorised open-ended investment companies (ICVCs)

It sets out the level of detail you need to give. You should also align the information you submit with our guidelines.

Topics

Background

The legislation governing the authorisation of AUTs, ACSs and ICVCs provides that if we are satisfied that various conditions are met, we may authorise the fund.

The legislation gives us powers to direct both the way applications are made and to specify that an application must contain, or be accompanied by, information we reasonably require to determine it.

We have directed firms to use the relevant forms. The forms specify the information which must be in the application and any relevant information which must accompany the application. The forms also contain further guidance.

The following information covers some of the specific questions we ask in the fund authorisation application forms, as well as some of the main areas where applicants have not provided the necessary information. It sets out the minimum information we require to determine an application.

If an application does not contain the necessary detail, we are likely to consider it incomplete. Incomplete applications are not subject to our normal time limits and could, ultimately, be refused.

General expectations across all applications

Self-contained documents

Firms should treat application forms as standalone documents when answering each question. We do not expect responses to refer us to passages of text in other documents provided in the application. An application form that states 'see prospectus for further information' would not meet the required standards.

Product and distribution strategy

When firms make an application, their product and distribution strategy should be sufficiently developed to allow the fund to be viable at the point of authorisation. We can authorise a fund only if we are satisfied that the purposes of the scheme are reasonably capable of being carried out. The application should include all relevant information to enable us to make this assessment.

We would not expect to receive applications where there are still material aspects to be determined (e.g., distribution strategy). In such cases, we are also likely to be concerned about how far the applicant is complying (or can comply) with other regulatory requirements. For example, the rules in PRIN 2A.3 (Consumer Duty: retail customer outcome – products and services).

Capacity to act

We expect all parties to already be able to act in the capacity proposed at application stage. Where any party has applied, or needs to apply, for permissions to fulfil their role, these permissions will need to be in place before the firm submits the fund application.

Consistency of information

All the documents in your application must contain consistent information. Where there are inconsistencies, they must be fully explained. For example, we would not expect to receive an application where the assets described in the fund's policy do not align with how you have shown us the fund will invest within the model portfolio, without commentary about why the investment policy language remains appropriate.

Complete set of documents

You should make sure you attach all documents required by the specific application with the submitted application. Where we do not have all required documents (e.g., KIIDs) we will consider the application incomplete.

Solicitor's certificate

Any application for a new scheme, or an alteration for an existing scheme which includes changes to the instrument of incorporation, trust deed or ACS deed, must include a solicitor's certificate. This must be signed by an individual solicitor. Where no changes are being made to the instrument of incorporation, trust deed or ACS deed, this document is not required for the application process.

Application specific

Fund names

The application form must make it clear why any fund name has been chosen. It is not sufficient to make statements such as 'the name has meaning to the investors'.

If a specific term is used in the fund's name, then it should be clear from the investment policy why the term is appropriate. You should also make sure any name meets our guidance on undesirable or misleading names (see COLL 6.9.6G).

Not all fund names will directly link to the assets or strategy of the fund. But when terms that are meant to do so are chosen then they must be justified by reference to the fund's policy and strategy.

<u>Examples</u>

Funds that identify 'UK' in their name (such as 'ACB UK Growth Fund – policy to invest in UK companies') should identify that the fund will invest in companies that are either domiciled in, incorporated in, or have a significant economic exposure to, the UK (or a combination of these factors).

Funds that will invest in UK equity markets with no regard to a company's domicile should identify this in the fund name (e.g. 'ACB UK Listed Equity Growth Fund') and the policy should reflect this by stating that investment may not be limited to UK companies.

Proposed fund names should not be identical to those of other UK authorised funds, or of other funds in an Authorised Fund Manager's (AFM) range which are recognised and marketed to investors in the UK. If you chose an identical name, we will require you to tell us why this duplicate name is essential. We will also need the AFM to confirm it is comfortable that all the fund's distribution channels make the fund name and domicile sufficiently clear and that it has taken reasonable care to prevent a UK investor from mistakenly selecting either the other AFM's fund or the already-authorised fund rather than the intended one. Relying on the difference between the ISINs (International Securities Identification Numbering system) to do this is not sufficient.

The name of the fund should not imply that anyone other than the Authorised Fund Manager is responsible for it. You can include a reference to a sponsor or investment adviser in the fund name if reference to the Authorised Fund Manager is included first. This also applies to any terms which are synonymous with/or linked to the sponsor and/or investment adviser. If a sponsor's name is used in the fund name, the scheme documentation should state who this is and what role they play in the management, operation or distribution of the fund.

The fund's investment policy should link to its name, where applicable. For example, if the fund name contains a term like 'cautious', 'defensive' etc, the investment policy needs to be clear why the policy links to this term, why this term is appropriate and how it will align with an investor's reasonable expectation of a fund that provides a cautious or defensive outcome for investors.

If you are applying for a Long-Term Asset Fund (LTAF), each scheme (and sub-fund where applicable) needs to include LTAF or Long-Term Asset Fund in its name.

Investment objectives

We expect investment objectives to be clear, measurable and justifiable. We should be able to understand from the application why the intended outcome is appropriate given the fund's strategy. This will include any non-financial objectives (e.g. a sustainability objective).

A fund may have no target benchmark for these objectives, e.g. it aims to achieve capital growth and/or income. In these cases, we will want you to explain why not using a benchmark is appropriate, considering the strategy and level of risk the fund is taking.

Where it applies, the Consumer Duty requires manufacturers of funds (such as fund managers) to have an approval procedure for each fund being created. Among other things, this means specifying a target market, and ensuring that the design meets the needs, characteristics, and objectives of this target market. The investment objectives of a fund are likely to be a key part of these considerations for authorised fund managers.

Examples:

If the fund objective has a specific outcome (e.g. to beat a specific index) the objective should state the specific time period in which the outcome is expected, for measurability (e.g. over 7 years). Terms like 'over the medium/long term' are open to interpretation and are not appropriate. The same is true for 'over at least 7 years' as this is not specific.

Where a fund has an objective to achieve an outcome relative to another factor, we expect this to be specifically set out. For example, where a fund aims to achieve a return while limiting volatility relative to a market, we expect this specific market index to be mentioned. General references such as 'compared to global equity markets' will not be sufficient.

A fund may have a specific target, e.g. to achieve a return of more than CPI + 2%. If so, the fund documents and supporting information should be clear about the strategy the fund will use to try and achieve this outcome. It would not be enough to simply provide details of the types of assets the fund may invest in. It should also be clear how the manager has satisfied itself that the strategy is aligned to the objective and is capable of being achieved.

Volatility targets

Where a fund has a specific volatility target, we expect it to form part of the investment objective. The application form should explain the purpose of the target and how it affects investment decisions. If you are using third-party risk-rating agencies, we expect this to be disclosed with an explanation of their role in the fund's management. If a fund uses 'risk' in its name, it should be in line with the target set and with an explanation in the application of why the name is relevant.

Where volatility is measured relative to a market, we expect a specific measurable reference to be used – e.g. a market index, rather than a general reference to a market such as 'global equities'.

Constraints and limitations in policies

The investment policy given in the prospectus should be clear on any constraints or limitations on the returns the fund is expected to generate. For example, if the fund is constrained relative to a benchmark or other factor.

If the fund invests within certain asset class parameters (e.g., 20% - 50% equities, 10% bonds) these should be clearly stated. Where a range is provided, you should make sure it reflects the fund's general position. Where the range is necessarily wide, you should consider whether the fund manager will realistically use this full range. If a wide range is given to provide flexibility for adverse market conditions, the policy should make it clear how the fund will typically invest and then how it might invest in these adverse conditions.

You should also make sure that the assets listed are appropriate for the fund type and are allowed for by the scheme's object clause.

Investment strategies

The information you give us in the application form needs to enable us to understand the strategy that the manager uses to select the assets the fund will hold.

It is not sufficient simply to tell us the types of assets that may be held.

If there are elements of the strategy which are not included within the investor-facing information, you should give details, explain why this is not disclosed to investors and how this strategy may affect investors' likely outcomes.

These details should enable us to see how the fund's strategy aligns with the fund's objective, and how it supports the objective as an outcome that investors could reasonably expect.

For example, if a fund manager follows a 'value' strategy, this should be set out in the investment policy and strategy; if a manager invests in equities but is tilted towards small companies, we expect such information to be disclosed.

Benchmarks

Target benchmarks

Where a fund has a target benchmark, we expect to be able to understand the rationale for selecting that benchmark, and how it is appropriate given the fund's strategy and underlying assets. For UK UCITS and non-UCITS retail schemes, the rules require that the prospectus includes a statement giving sufficient information for investors to understand how any target benchmark has been chosen and will be used. For other authorised fund applications, we expect this information to be given to investors in the prospectus.

Where a fund has a performance fee, either for the whole fund or for 1 or more share classes, we expect you to include the hurdle rate for the performance fee in the fund's objective as a target benchmark.

Target benchmarks must be included in the 'past performance' section on the KIID or NURS-KII document and clearly identified. Where performance in excess of an index is stated as the target benchmark (e.g. FTSE All Share + 2%), we expect this target to be included rather than just the flat index performance.

Constraining benchmarks

Where a fund has a constraining benchmark, we expect the application and fund documentation to show what this benchmark is and how much it affects fund outcomes and the manager's ability to allocate assets. For UK UCITS and non-UCITS retail schemes, the rules require the prospectus to include a statement providing sufficient information for investors to understand the choice and use of the benchmark.

Constraining benchmarks must be included in the 'past performance' section of the KIID or NURS-KII document and clearly identified as such.

Comparator benchmarks

Where a fund has a comparator benchmark, we expect to be able to understand why the fund manager has chosen this specific measure. This should also be reflected in the information available to investors in the prospectus. For UK UCITS and non-UCITS retail schemes, the rules require the prospectus to include a statement giving sufficient information for investors to understand the choice and use of the benchmark.

Where a fund selects a comparator benchmark which reflects a specific return (e.g. X% more than a benchmark), this should be a target benchmark. So, the application should clearly explain how this comparator was arrived at, why it is appropriate given the nature of the fund and why the Authorised Fund Manager is satisfied that it isn't a target benchmark given the specific outcome reflected. In general, our view is that this is likely to be a target benchmark and should be disclosed as such.

Where a fund has a target benchmark which refers to a return more than a benchmark, we do not expect the flat index to be included as a comparator benchmark.

Where comparator benchmarks are shown in the 'past performance' section of the KIID or NURS-KII, they should be clearly labelled as such.

Funds with no benchmark

If a fund has no benchmark (target, constraining or comparator), we expect the application to detail why the manager has decided not to use one. The application and the fund documentation must show how investors will be able to assess the fund's performance. For UK UCITS and non-UCITS retail schemes, the rules require the prospectus to include an explanation of how investors can asset the fund's performance. It should not be left to the investors to decide how they should assess performance. For example, statements such as 'An investor may consider benchmarks which align to the asset allocation of the fund to assess performance' or 'An investor can determine if we have done well by the return we provide' are not sufficient.

Stress testing

In the application form, we ask for the stress testing you have carried out to support the development of the fund. We expect to be able to understand your assessment of the results of this testing and why you carried out the specific tests. So, as a minimum, we expect any stress testing to be accompanied with commentary giving details of the following points:

- The reason why any historical or hypothetical stress tests used were chosen - we expect the scenarios that are tested to align with the assets the fund intends to invest in.
- Basis for the testing – e.g. portfolio liquidity, participation assumptions, approach to liquidation (such as most liquid first or a pro-rata approach) – and why this is appropriate, given the fund's target market, and is reasonable and fair to all investors.
- Commentary on whether the results were in line with expectations. If they were not, what was done to change the product design.
- Commentary on why the results gave assurance the fund was reasonably capable of providing the expected outcomes.
- How the stress testing aligns with the fund's investment objective, using the asset classes the investment policy states the fund will invest in.

If we simply receive results of testing without the above commentary, we will not have sufficient information to begin our review.

Model portfolios

We require sight of a model portfolio for any new funds, or where changes are being made to the current portfolio because of a change in the fund's investment policy or strategy.

For us to be able to assess this effectively, the portfolio provided should, as a minimum, include the following information for each individual asset:

- Name of asset.
- ISIN or other applicable reference.
- Asset class (e.g. equity, Emerging Market equity, High Yield Bond etc).
- Asset type (e.g. transferable security, collective investment scheme etc).
- Domicile of asset.
- Country exposure (if a global portfolio).
- Percentage of the portfolio per asset.
- Where the fund has an Environmental, Social and Governance (ESG) strategy, identification of any applicable scoring or rationale for including the holding with reference to the ESG strategy.

Where there are multiple investment managers responsible for different proportions, you should submit a separate portfolio for each investment manager and then a combined portfolio bringing all the investment managers' assets together.

We would expect to see how the portfolio aligns with the fund's investment policy. So, as a minimum, we also expect details of the following:

- For global portfolios, the percentage of the portfolio allocated to each relevant country.
- Percentage of the overall portfolio allocated to each asset class.
- Split between direct and indirect exposure.

Environmental, social and governance (ESG) related strategies

Where a fund's documents refer to ESG-related strategies (even where the fund's name does not include terms that refer to this), we need to understand how this affects the holdings the fund can select – and any limitations to this policy. For us to be able to assess this, we expect the fund application to include as a minimum:

- An explanation of why any ESG-related terms in a fund name is appropriate and links to the outcomes the ESG policy aims to achieve.
- A detailed description of how the ESG assessment is part of the investment process, along with full details of any sustainable/exclusion policies in the investment policy and strategy.
- Model portfolios clearly showing how the holdings meet the ESG policy of the fund. Any holdings which do not meet this policy should be highlighted, with an explanation of why they are still included.
- Any relevant details about the fund's stewardship strategy.
- Details of ongoing reporting to investors, focusing on how investors will be able to assess whether the fund has invested in line with the ESG-related strategy described to investors.
- Any other investor-facing documents (including digital material) which investors would get to directly help them understand the ESG strategy used.

If an existing fund is repositioning its portfolio to follow an ESG / sustainable strategy, then as well as these factors, the application should include information on the portfolio realignment and information being given to investors about the process.

Funds which wish to use a SDR investment label

Some funds may intend to comply with the rules governing a specific SDR label. We expect these funds proposals will, in addition to all the above, include the relevant aspects for this specific label as set out in the rules and PS23/16. Our SDR web pages give more information on the specific details.

The following list of information needs to be included as a minimum so that we have what we need to decide the application. Not including this information may mean we have to ask you to complete this before we accept the application and will likely delay approval.

For all labels, independent assessment is required to confirm the standard is fit for purpose either using internal processes or third parties, as long as the chosen method is independent from the fund manager's investment process. The application should be clear about who has carried out this process and it should also be disclosed in the fund documents.

Sustainability Focus labelled fund

The sustainable objective should be drafted so that it is clear and makes it easy to understand the outcome the fund is seeking. Generic references would not be acceptable. For example, we would not expect a sustainable objective to simply say that the fund will invest in sustainable companies which meet a robust standard – we expect it to be clear to investors what the fund intends to do.

The robust, evidence-based standard should be disclosed in a way that means investors can understand how assets are selected. The policy/strategy must explain why the standard has been chosen and why it is a robust measure of absolute sustainability. For example, if a minimum percentage revenue limit has been selected as the standard it should be clear in the policy why the specific percentage is appropriate, and the robust evidence base for its selection.

Where assets are held outside of the minimum 70% allocated to achieving the sustainability objective then it should be clear what these assets classes are and the purpose for holding them.

The policy/strategy should explain how the manager assesses whether any other assets conflict with the sustainability objective. The application form should also make clear how this process achieves this outcome.

KPIs should demonstrate how the fund/assets have met the sustainability objective. ESG 5.3.3R(3)(c) requires the fund manager to disclose the proportion of assets that are invested in accordance with the sustainability objective, so KPIs given in the proposals should not simply fulfil this requirement. For example, we would not expect the KPIs to solely reflect the percentage of the fund invested in line with the robust standard.

Firms must identify and disclose the stewardship strategy needed to support the delivery of the sustainability objective. This includes activities they expect to undertake and outcomes they expect to achieve.

Sustainability Improver labelled fund

The robust, credible standard the selected assets will be progressing towards should be disclosed in a way that means investors can understand how assets are chosen. The policy/strategy must explain why the standard has been selected and why it is a robust measure of absolute sustainability.

The time period for the fund/assets to meet the standard should be disclosed, including short- and medium-term targets. We expect that these will be clear from the outset. These targets can be set at the fund or asset level.

Where assets are held outside of the minimum 70% allocated to achieving the sustainability objective it should be clear what these assets classes are and the purpose for holding them.

The policy/strategy should explain how the manager assesses whether any other assets conflict with the sustainability objective. The application form should make it clear how this process achieves this outcome.

KPIs should demonstrate how the fund/assets are progressing to meet the sustainability objective. ESG 5.3.3R(3) (c) requires disclosure of the proportion of assets that are invested in line with the sustainability objective, so KPIs given in the proposals should not simply fulfil this requirement. For example, we would not expect the KPIs to solely reflect the percentage of the fund invested in line with certain themes identified in the sustainability objective.

The firm's stewardship strategy should be explained in a way which demonstrates how it supports delivery of the fund's sustainability objective and helps to accelerate improvements in sustainability over time. For example, we would not expect that only the firm-wide stewardship strategy is referenced without a link to the funds specific intended outcomes.

Sustainability Impact labelled fund

The sustainability objective should be consistent with the aim to achieve a pre-defined positive measurable impact on an environmental and/or social outcome. For example, it is not enough to disclose the themes against which companies will be chosen. The objective should also show the pre-defined outcome you are seeking from investing in these types of companies.

The fund details should set out the fund's theory of change. This should explain how fund managers expect their investment activities and the product's assets to contribute to the environmental and/or social outcome given in the sustainability objective. So the theory of change should include detail about how both the product's assets and investment activities seek to achieve the intended impact.

It is a requirement of funds with a sustainability impact label to specify a robust method for measuring and demonstrating the positive impact of both the assets the product invests in and the firm's investment activities. These measures should be clear from the fund documentation and show how they specifically allow the pre-defined positive impact sought by the fund to be measured.

Sustainability Mixed Goals fund

It should be clear the proportion of the fund to which each label will apply.

The sustainability objective for each aspect of the fund should be clear. For example, if a fund had a mixed goal of focus and improver, we would expect to be able to understand the intended outcome for each part of the portfolio, and the robust evidence-based standard for each (if these are different).

It should be clear from the fund documentation how the proposed fund complies with all requirements of each distinct label.

Dealing arrangements

The application form asks for details of a proposed fund's dealing arrangements.

We expect you to give us sufficient information to understand why you have chosen the relevant dealing frequency, and why this is appropriate given the underlying assets and target market of the fund.

If there are any arrangements which affect how an investor can subscribe to or redeem from a fund, these should be set out with commentary on why these have been selected and why the manager believes them to be in investors' best interests.

If a fund has any non-standard dealing arrangements, you should provide examples to help us understand outcomes in various scenarios. You should include the longest period that could elapse between an investor submitting an instruction to subscribe or redeem and buying units or receiving payment of proceeds as a result of their instruction.

Concentrated portfolio

If the proposed fund will be managed on a concentrated basis in terms of holdings, sector etc, we expect you to explicitly give details of this approach in the fund's investment policy. It will not be sufficient to include reference to this solely in the risk warnings.

Multiple investment advisers

Where there is more than one delegated investment adviser/manager responsible for managing different segments of the fund portfolio, the application should cover the following details as a minimum:

- What proportion of the fund does each investment adviser/manager manage and how might this allocation fluctuate in the future?
- An explanation of any different focuses by each of the advisers/managers– e.g. are there different advisers/managers for different asset types, different regions? – or do they have different investment styles?
- Details of the oversight that the Authorised Fund Manager has in place specifically to ensure that the overall portfolio is aligned to the overall objective of the fund.
- How the Authorised Fund Manager assesses the value generated by the different managers – especially where different managers may be considering the same types of assets and have similar styles.
- What is each investment adviser/manager receiving in terms of remuneration?

We expect you to have considered how to describe this aspect of the investment policy to investors in the fund documentation and within the fund's strategy.

Investor communications due to changes to authorised funds

The application form should be clear about how each proposed change will be treated for investor notification purposes and why you are satisfied that this is appropriate.

Where you decide that a change is significant, then the minimum notice period for investors is 60 days for UK UCITS and non-UCITS retail schemes. It is not possible to waive the required notice period for these schemes, even with investor consent. You would either need to be satisfied that the change could be treated as notifiable in the circumstances, or you will need to provide the required 60 days' minimum notice.

We expect investor communications to give enough information for investors to understand the changes being made and the impact of those changes on them. You should include background information so the rationale for the change is clear, and so that investors can understand whether this will alter outcomes for them. Messages to investors should be consistent across the whole programme of investor communication, and within each individual document. The change classification should also be consistent with the information included in any letter to investors.

For example, if the change has been classified as fundamental, we would not expect a letter to say that changes are being made to the investment policy to better reflect how the fund is being run and to state there is no change in outcome.

It is unlikely to be appropriate to reference FCA approval for the changes you are proposing. This will avoid the potential for investors to misunderstand the basis on which we provide approval. We would instead expect any such reference to reflect the nature of the approval provided, ie that we have confirmed it won't affect the ongoing authorisation of the scheme. If you need to make reference to FCA approval, e.g. where a scheme will be wound up so the approval will affect the scheme's ongoing authorisation, any statement should be limited in its scope with reference to the specific approval that we have provided to you in our letter.

Long Term Asset Funds (LTAF)

When applying for a LTAF, just like any fund, we expect you to have developed the proposition sufficiently to provide full details in the application, and to answer questions through the review. As a minimum this means.

- If you are valuing the portfolio internally, that you have received sign off from the depositary.
- All material policies relevant to the fund (e.g. valuation policy) are fully finalised.
- If the LTAF is a feeder fund, that the Master fund is authorised, or if this does not apply, that the Master funds features are finalised and are appropriate for a UK authorised LTAF.
- The subscription and redemption processes are accurately described; examples are often helpful when the arrangements are more complex.

COLL 15.2.4R sets out that a manager must have the necessary knowledge, skills and experience and the resources to manage the LTAF. They may not rely on delegation or outsourcing to satisfy this requirement. Where a UK Authorised Fund Manager is part of a wider group, we would expect this requirement would be fulfilled by personnel within the UK Authorised Fund Manager only. Where resource from the wider group is used, we expect you to demonstrate within the application how the requirement is being met. You need to provide full information about the skills and knowledge and experience of the Authorised Fund Manager's governing body and day-to-day employees. This information should cover the specific asset classes that the LTAF intends to invest in so, for example, telling us someone has 20 years financial services experience is not going to be sufficient.

For LTAFs, a pre-application meeting with the team must be held before submitting any application. As part of the application, please confirm the date the pre-application meeting was held and make sure to include information on any subsequent changes made to the fund since this meeting.

LTAF applications can only be submitted by Full Scope Alternative Investment Fund Managers (AIFMs). Such an AIFM must, as part of the application, be able to demonstrate it can carry out all its responsibilities for the LTAF without relying on delegation arrangements.

Where an Authorised Fund Manager submits several LTAF applications, we need the questions to be answered each time for every application. Each application is standalone and we assess it on that basis, so referring us to other applications is not appropriate.