

CP185 Briefing Note

'CP 185 The CIS sourcebook – a new approach' is the biggest regulatory change to impact the UK collective investment scheme (CIS) industry since the CIS rules came into being in 1988.

The FSA has listened carefully to the industry and pre-consulted with industry trade bodies, including the IMA and has taken on board IMA's 'wish-list'. The industry is very enthusiastic about the FSA's proposals.

The new regime, to be introduced on 1 April 2004, will mean that managers can produce products, specifically designed for each different category of investor from the very cautious, at one end of the risk tolerance spectrum, to sophisticated institutional investors at the other end. The result will give UK plc increased competitiveness across all product ranges and across Europe.

1. Objectives of the CIS review

- To remove prescription e.g. by removing from the rule book a raft of unnecessarily detailed rules
- To increase flexibility, to enable managers to design and administer products in the most efficient manner
- To maintain a robust regulatory structure for authorised collective investment schemes (CIS) for consumers across a range of different needs and expertise

2. The changes

New categories of schemes

- Non-UCITS retail regime will be extended to include mixed funds. Previously funds were prescriptively categorised as funds of funds, property etc
- Authorised institutional funds called "qualified investor schemes" will be introduced as investment vehicles for pension providers, life companies and a limited category of "expert" private investors
- Limited redemption – under the new regime, managers of guaranteed funds and funds investing in illiquid assets such as property will be able to have a period of time in which to raise monies when redemptions are requested by an investor. Companies therefore will be able to sell units at a minimum of twice a year
- Alignment of rules for unit trusts and OEICs – unit trusts will now be allowed to have the same share classes as OEICs and not just income and accumulation units. Such classes include Euro units, institutional units etc
- Capital protected funds. Currently largely run out of Dublin, the new regime creates the potential for them to be brought back onshore
- Authorised onshore property funds for the retail market

Other

- Clarification of the use of fair value pricing which is a means of accurately estimating the value of the underlying assets of a fund and can be used as a counter measure to protect funds against arbitrage
- Introduction of performance fees – which will bring fees into line with the structure in the EU and will ensure competitiveness
- Short reports – A new requirement to distribute short investor reports, which will consist of a 2 page summary about the fund every 6 months. The current requirement to send out the lengthy, complicated and not user-friendly report and accounts has been dropped. Investors may still of course request a copy from the manager.
- Price publication – Under the new rules it will no longer be a requirement to publish fund prices in a national newspaper. Managers may not wish to take advantage of this.

3. UK competitiveness

Offshore funds could be brought onshore as a result of increased flexibility in the UK regulatory structure. This will result in making the UK more attractive to fund managers than domiciling their funds offshore e.g. in Dublin, Luxembourg.