

Chapter 15

Long-term asset funds

15.8 Valuation, pricing, dealing and income

Application

15.8.1

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This section applies to:

- (1) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
- (2) any other *director* of an *ICVC*;
- (3) the *depository* of an *AUT*, *ACS* or an *ICVC*; and
- (4) an *ICVC*,
which is a *long-term asset fund*.

Valuation, pricing and dealing

15.8.2

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- (1) The value of the *scheme property* is the net value of the *scheme property* after deducting any outstanding borrowings (including any capital outstanding on a mortgage of an immovable).
- (2) Any part of the *scheme property* which is not an *investment* (save an immovable) must be valued at fair value.
- (3) For the purposes of (2), any charges that were paid, or would be payable, on acquiring or disposing of the asset must be excluded from the value of that asset.
- (4) The value of the *scheme property* of an *authorised fund* must, save as otherwise provided in this section, be determined in accordance with the provisions of the *instrument constituting the fund* and the *prospectus*, as appropriate.
- (5) The *scheme* must have a *valuation point* on each *dealing day* and there must be at least one *valuation point* every *month*.
- (6) The *authorised fund manager* must prepare a valuation in accordance with (4) for each relevant type of *unit* at each relevant *valuation point*.
- (7) The price of a *unit* must be calculated on the basis of the valuation in (6) in a manner that is fair and reasonable as between *unitholders*.

- (8) In respect of each *valuation point* under (5), the *authorised fund manager* must publish in an appropriate manner the price of any type of *unit* based on the valuation carried out in accordance with (6).
- (9) The *authorised fund manager* must also provide on request to any *unitholder* at any time an estimated price for any type of *unit* in the *scheme*.
- (10) The period of any *initial offer* and how it should end must be set out in the *prospectus* and must not be of unreasonable length.

Profits from dealing as principal

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- (1) Where an *authorised fund manager*:
 - (a) accepts instructions to *sell* and *redeem units as principal*; and
 - (b) is able to execute a *sale* instruction by *selling units* it has *redeemed* at the same *valuation point*, without placing its own capital at risk,

subject to (2), the *AFM* must not retain for its own account, or the account of any of its *associates*, the difference between the *price* at which a *unit* was *redeemed* (before deduction of any *redemption charge*) and the *price* at which the same *unit* was sold (after deduction of any *preliminary charge*). Any such difference must be allocated in a way that is fair to *unitholders*.
- (2) In calculating the profit arising under (1), the *AFM* may offset any loss it incurs at the same *valuation point*, calculated in accordance with (3), when dealing as *principal* in relation to:
 - (a) a *unit issued* at that *valuation point* to fulfil a *sale* instruction that cannot be matched against any *redeemed unit* or any other *unit* of that *class* held by the *manager as principal*; and
 - (b) a *unit redeemed* and *cancelled* at that *valuation point*.
- (3) The amount of the loss referred to in (2) is:
 - (a) for *units issued* in accordance with (2)(a), the difference between the *issue price* of a *unit* and the *sale price* of that *unit*, less any *preliminary charge*;
 - (b) for *units cancelled* in accordance with (2)(b), the difference between the *cancellation price* of a *unit* and the *redemption price* of that *unit*, before any *redemption charge* is applied.
- (4) Where any loss arising under (2) is greater than any profit arising under (1), that loss cannot be offset against any profit arising at a subsequent *valuation point*.
- (5) This *rule* applies to the *redemption* and *sale* of *units* of different *classes* at the same *valuation point*, if those *classes* are treated as one for the purpose of ■ COLL 15.8.6R (Issue and cancellation of units in multiple classes).

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- (1) The *authorised fund manager* may commit its own capital to hold *units* for *dealing as principal* and may seek to profit from gains in the value of the *units* it holds, when it *issues* or *redeems units* at one

valuation point then *sells* or *cancels* them at a later *valuation point*. However, it should not profit from situations in which it is not exposed to an equal risk of loss if the *units* fall in value, or from the ability to match simultaneous *sales* and *redemptions* at different *prices* at no risk to its own capital.

- (2) The *AFM* may allocate any amount arising under ■ COLL 15.8.3R(1) (Profits from dealing as principal) in the interests of investors by paying it into *scheme property* for the benefit of all *unitholders*. Alternatively, the *AFM* may redistribute it individually among the transacting investors.
- (3) Where the *AFM* intends to allocate a payment to *scheme property*, it should determine if the amount (when added to any other amounts of the same kind relating to that *class* of *units*) would, if taken into account in the *scheme's* valuation, affect the accuracy of the *unit prices* to four significant figures. If so, and subject to (4) below, the amount should be accrued in each subsequent valuation of the *scheme* until the payment is transferred. Such payments into *scheme property* should be made regularly and no less frequently than payments for the *AFM's* management charge are transferred out of *scheme property*.
- (4) The calculation to be performed under ■ COLL 15.8.3R (Profits from dealing as principal) should be carried out in relation to each *valuation point* of the *scheme* on a timely basis. Where it is not practical to do this before *unit prices* are calculated and published, the *AFM* should ensure that the accrual represents a reasonable estimate of the total payment it intends to make to *scheme property*.

Issue and cancellation of units

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- (1) The *authorised fund manager* must:
 - (a) ensure that at each *valuation point* there are at least as many *units* in *issue* of any *class* as there are *units* registered to *unitholders* of that *class*; and
 - (b) not do or omit anything that would, or might, confer on itself a benefit or advantage at the expense of a *unitholder* or potential *unitholder*.
- (2) For the purposes of (1) the *authorised fund manager* may take into account *sales* and *redemptions* after the *valuation point*, provided it has systems and controls to ensure compliance with (1).
- (3) The *authorised fund manager* must arrange for the *issue* and *cancellation* of *units* and pay money or assets to or from the *depository* for the account of the *scheme* as required by the *prospectus*.
- (4) The *authorised fund manager* must keep a record of *issues* and *cancellations* made under this *rule*.
- (5) The *authorised fund manager* may arrange for the *ICVC*, or instruct the *depository* of the *AUT* or *ACS*, to *issue* or *cancel units* where the *authorised fund manager* would otherwise be obliged to *sell* or *redeem* the *units* in the manner set out in the *prospectus*.

- (6) Where the *authorised fund manager* has not complied with (1), it must correct the error as soon as possible and must reimburse the *scheme* any costs it may have incurred in correcting the position, subject to any reasonable minimum level for such reimbursement as set out in the *prospectus*.

Issue and cancellation of units in multiple classes

15.8.6 **R** If a *long-term asset fund* has two or more *classes of unit* in *issue*, the *authorised fund manager* may treat any or all of those *classes* as one for the purpose of determining the number of *units* to be *issued* or *cancelled* by reference to a particular *valuation point*, if:

- (1) the *depository* gives its prior agreement; and
- (2) the relevant *classes*:
 - (a) have the same entitlement to participate in, and the same liability for *charges*, expenses and other payments that may be recovered from, the *scheme property*; or
 - (b) differ only as to whether income is distributed or accumulated by periodic credit to capital, provided the *price* of the *units* in each *class* is calculated by reference to undivided shares in the *scheme property*.

Transfer of units in an ACS

15.8.7 **R** (1) Where transfer of *units* in an *ACS* is allowed by its *contractual scheme deed* and *prospectus* in accordance with the conditions specified by *FCA rules*, the *authorised contractual scheme manager* of the *ACS* must take reasonable care to ensure that *units* are only transferred if the conditions specified by the *FCA* under (2) are met.

- (2) The *FCA* specifies that for the purposes of (1), and for the purposes of ■ COLL 15.3.6R(3)(9)(a)(vii)(B) (Table: contents of the instrument constituting the fund) and ■ COLL 15.4.5R(18)(2) (Table: contents of long-term asset fund prospectus), *units* in the *ACS* may only be transferred to a *person*:
 - (a) who is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
 - (b) to whom *units* in a *long-term asset fund* may be promoted without contravening the *rules* in ■ COBS 4.12A (Promotion of restricted mass market investments).

15.8.8 **G** The *FCA* recognises that some transfers of *units* arise by operation of law (such as upon death or bankruptcy of the *unitholder*, or otherwise) and are accordingly outside the control of the *authorised contractual scheme manager*. The *authorised contractual scheme manager* is expected to comply with its responsibilities under ■ COLL 15.8.10R (Redemption of ACS units in an LTAF by an authorised contractual scheme manager) in those cases by *redeeming* those *units*.

Responsibilities of the authorised contractual scheme manager in relation to ACS units

- 15.8.9 **R** (1) The *authorised contractual scheme manager* of an *authorised contractual scheme* which is a *long-term asset fund* must take reasonable care to ensure that rights or interests in *units* in the *scheme* are not acquired by any *person* from or through an *intermediate unitholder* in a *long-term asset fund*, unless:
- (a) that *person* is a:
 - (i) *professional ACS investor*; or
 - (ii) *large ACS investor*; or
 - (iii) *person* who already holds *units* in the *scheme*; and
 - (b) *units* in a *long-term asset fund* may be promoted to that *person* without contravening the *rules* in ■ COBS 4.12A (Promotion of restricted mass market investments).
- (2) The *authorised contractual scheme manager* will be regarded as complying with (1) to the extent that it can show that it was reasonable for it to rely on relevant information provided by another *person*.

Redemption of ACS units in an LTAF by an authorised contractual scheme manager

- 15.8.10 **R** The *authorised contractual scheme manager* of a *long-term asset fund* which is an ACS must *redeem units* in the *scheme* as soon as practicable after becoming aware that those *units* are vested in anyone (whether as a result of subscription or transfer of *units*) other than a *person* meeting the criteria in ■ COLL 15 Annex 1R(1) and ■ (2) (ACS Long-Term Asset Funds: eligible investors).

Dealing: sale of units

- 15.8.11 **R** The *authorised fund manager* must, at all times during the *dealing day*, be willing to effect the *sale of units* to any eligible investor (subject to any conditions in the *instrument constituting the fund* and the *prospectus*, which must be fair and reasonable as between all *unitholders* and potential *unitholders*) for whom the *authorised fund manager* does not have reasonable grounds to refuse such *sale*.

Dealing: redemption of units

- 15.8.12 **R** (1) In this *rule*, a 'redemption determination' is a determination by the *authorised fund manager* of the *long-term asset fund* to:
- (a) accept a request by a *unitholder* to *redeem units* in the *scheme*;
 - (b) refuse a *redemption* request (see paragraph (2)(c)); or
 - (c) 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)).
- (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* 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.
 - (b) The *authorised fund manager* must not make *redemption determinations* more frequently than the *dealing* frequency of the *scheme* and, in any event, not more than once a *month*.
 - (c) The *authorised fund manager* must accept a *unitholder's* request to *redeem units* in the *scheme* 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.
 - (d) The *authorised fund manager* must inform the *unitholder* of the outcome of the *redemption determination*.
 - (e) If the *authorised fund manager* accepts the *unitholder's* request to *redeem units* in the *scheme*:
 - (i) the *redemption* request is deemed to be irrevocable;
 - (ii) the *authorised fund manager* must undertake to effect the *redemption* at the applicable time, in accordance with any conditions in the *instrument constituting the fund* and the *prospectus*; and
 - (j) the *authorised fund manager* must confirm to the *unitholder*:
 - (A) that the *redemption* request has been accepted and cannot be revoked; and
 - (B) having regard to the period specified for the purposes of (f), the dates on which it is expected that the *redemption* will be effected and the appropriate proceeds paid.
 - (f) The *authorised fund manager* must determine the *price* for the *units* being *redeemed* pursuant to the *unitholder's 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 at least 90 *days* after the *day* on which the request to *redeem units* in the *scheme* was accepted.
 - (h) The *authorised fund manager* must *redeem* the *units* at the *price* determined in accordance with (f) and pay the *unitholder* the appropriate proceeds of *redemption* in accordance with paragraphs (4) and (5).
- (3) Subject to ■ COBS 2.1.4R (*AIFMs' best interests rule*) 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* 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, the *authorised fund manager* must pay 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.
- (5) Payment of proceeds on *redemption* must be made by the *authorised fund manager* in any manner provided for in the *prospectus* which

must be fair and reasonable as between *redeeming unitholders* and continuing *unitholders*.

- (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*, those arrangements must not result in:
- (a) the *authorised fund manager* making *redemption determinations* more frequently than once a *month* (see paragraph (2)(b)); or
 - (b) the *notice period* being shorter than 90 *days* (see paragraph (2)(g)).

Sale and redemption of units: guidance

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- (1) The *authorised fund manager* of a *long-term asset fund* is required to ensure that the investment strategy, liquidity profile and redemption policy for the *scheme* are consistent (see ■ FUND 3.6.2R (Alignment of investment strategy, liquidity profile and redemption policy)).
- (2) Given the type of *investments* that a *long-term asset fund* is likely to hold in its *scheme property*, the FCA considers that a *long-term asset fund* will need to operate particular arrangements for the *redemption of units*.
- (3) The *authorised fund manager* of a *long-term asset fund* must not make *redemption determinations* more frequently than once a *month* (see ■ COLL 15.8.12R(2)(b)), which is the maximum frequency for determining such requests and effecting *redemptions*. The *rules* also require a *long-term asset fund* to have a *notice period* of at least 90 *days* (see ■ COLL 15.8.12R(2)(g)). This is the minimum *notice period* for a *long-term asset fund*.
- (4) However, the frequency of the *days* on which *redemption determinations* are made and the particular *notice period* which is appropriate for a *long-term asset fund* will depend on the reasonable expectations of the target investor group and the particular investment objectives, investment policy and investment strategy of the *scheme*.
- (5) The *authorised fund manager* must also comply with the *AIFMD level 2 regulation*, which contains detailed requirements about liquidity management taking into account the *long-term asset fund's* investment strategy, liquidity profile and *redemption* policy. See, for example, articles 46 to 49 of the *AIFMD level 2 regulation*.
- (6) Other determinations which an *authorised fund manager* may make, if provided for in the *instrument constituting the fund* and the *prospectus* (see ■ COLL 15.8.12R(1)(c)), could include a deferral of execution of a *redemption* request or payment, or a limit on the value or number of *units* which can be *redeemed* at any one *valuation point*.
- (7) *Redemption determinations* should be carried out so that all *unitholders* who have requested *redemption* at any one *valuation point* are treated fairly.

Property Authorised Investment Funds

15.8.14

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The *authorised fund manager* of a *long-term asset fund* that is also a *property authorised investment fund* must take reasonable steps to ensure that no *body corporate* holds more than 10% of the net asset value of that *scheme* (the “maximum allowable”).

For the purposes of (1), a *body corporate* shall not be treated as holding more than the maximum allowable to the extent that:

the *body corporate* holds *units* in a *unit trust scheme* which holds *shares* in the *property authorised investment fund*; and

in their capacity as *trustees* of the *unit trust scheme*, the *trustees* are chargeable in the *United Kingdom* either to income tax or to corporation tax.

Where the *authorised fund manager* of a *property authorised investment fund* becomes aware that a *body corporate* holds more than the maximum allowable, the *authorised fund manager* must:

notify the *body corporate* of that event;

not pay any income distribution to the *body corporate*; and

redeem or *cancel units* forming the *body corporate's* holding down to the maximum allowable within a reasonable timeframe.

For the purpose of (3)(c), a reasonable timeframe means the timeframe which the *authorised fund manager* reasonably considers to be appropriate having regard to the interests of the *unitholders* as a whole.

Reasonable steps to monitor the maximum allowable include:

15.8.15

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Reasonable steps to monitor the maximum allowable include:

- (1) regularly reviewing the *register*; and
- (2) taking reasonable steps to ensure that *unitholders* are kept informed of the requirement that no *body corporate* may hold more than 10% of the net asset value of a *property authorised investment fund*.

Payments: application of rules

15.8.15A

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- (1) ■ COLL 15.8.15CR to ■ COLL 15.8.15PR apply in relation to an *LTAF retail class*.
- (2) In relation to a *limited protection LTAF class*:
 - (a) ■ COLL 15.8.15CR and ■ COLL 15.8.15DG always apply; and
 - (b) ■ COLL 15.8.15QR may be applied.
- (3) ■ COLL 15.8.15CR to ■ COLL 15.8.15PR apply as specified in the table in (4).
- (4) This table belongs to (3).

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Rule	ICVC	Authorised fund manager	Depository of an ICVC, AUT or ACS
COLL 15.8.15CR	x	x	x
COLL 15.8.15DG	x	x	x
COLL 15.8.15EG	x	x	
COLL 15.8.15FR	x	x	
COLL 15.8.15GR		x	
COLL 15.8.15HG		x	
COLL 15.8.15IR		x	
COLL 15.8.15JR		x	x
COLL 15.8.15KG		x	x
COLL 15.8.15LR	x	x	
COLL 15.8.15MG	x	x	
COLL 15.8.15NR	x	x	x
COLL 15.8.15OG		x	x
COLL 15.8.15PR	x	x	

Note: "x" means "applies" but not every paragraph in every rule will necessarily apply.

15.8.15B G Where ■ COLL 15.8.15EG to ■ COLL 15.8.15PR are not applied to *classes* which are intended only for *limited protection LTAF investors*, the *authorised fund manager* is required to take reasonable care to ensure that ownership of *units* in that *scheme* is recorded in the *register* only for a *person* who is a *limited protection LTAF investor* (see ■ COLL 15.1.3R (Long-term asset funds: eligible investors)).

Payments out of scheme property

15.8.15C R

(1) The only payments which may be recovered from the *scheme property* of a *long-term asset fund* are those in respect of:

- (a) remunerating the parties operating the *authorised fund*;
- (b) the administration of the *authorised fund*;
- (c) the investment or safekeeping of the *scheme property*; and
- (d) subject to (1A), donations to one or more *registered charities* for Sharia compliance purposes (in this *rule*, 'purification'), as set out in and authorised by the *prospectus* of the *scheme*.

(1A) Payments relating to (1)(d) may only be made from the *income property* of the *scheme* where they represent the required percentage of the *income property* recognised for purification as advised by a *person* with appropriate knowledge of finance and Islamic law.

(2) No payment under this *rule* can be made from *scheme property* if it is unfair to (or materially prejudices the interests of) any class of *unitholders* or potential *unitholders*.

- (3) Paragraphs (1) and (2) do not apply to any payments in relation to any taxation payable by the *authorised fund*.
- (4) Paragraphs (1) and (2) do not permit payments to third parties for the safekeeping or administration of *units* on behalf of *unitholders* rather than on behalf of the *authorised fund*.

Payments out of scheme property: guidance

15.8.15D G

- (1) Details of permissible types of payments out of *scheme property* are to be set out in full in the *prospectus* in accordance with ■ COLL 15.4.5R(14) (Table: contents of a long-term asset fund prospectus).
- (2) An *authorised fund manager* should consider whether a payment to an *affected person* is unfair because of its amount or because it confers a disproportionate benefit on the *affected person*.
- (3) ■ COLL 15.8.15CR(2) does not invalidate a payment that gives rise to a difference between the rights of separate *classes* of *unit* that relates solely to the payments that may be taken out of *scheme property*.
- (4) Payments to third parties as referred to in ■ COLL 15.8.15CR(4) include payments to *platform service providers* and other similar platform services.
- (5) The *person* referred to in ■ COLL 15.8.15CR(1A) should be independent of the *authorised fund manager* and any *registered charity* to which payments may be made.

Performance fees

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- (1) For the *authorised fund manager's* periodic charge or for payments out of *scheme property* to the *investment adviser*, the *prospectus* may permit a payment based on a comparison of one or more aspects of the *scheme property* or *price* in comparison with fluctuations in the value or price of property of any description or index or other factor designated for the purpose (a 'performance fee').
- (2) Any performance fee should be specified in the appropriate manner in the *prospectus* and should be consistent with ■ COLL 15.8.15CR. In determining whether the performance fee is consistent, the *authorised fund manager* should have regard to factors such as:
 - (a) where it is made on the basis of performance of the *authorised fund* against any index or any other factor, that benchmark must be reasonable given the investment objectives of the *authorised fund* and must be consistently applied;
 - (b) the performance fee may be based on performance above a defined positive rate of return (the 'hurdle rate'), which may be fixed or variable;
 - (c) where (a) or (b) applies, the benchmark or hurdle rate may be carried forward to future accrual periods;
 - (d) the period over which it accrues and the frequency with which it crystallises should be reasonable; and

(e) except where allowed by ■ COLL 15.8.15CR(1), there are to be no arrangements to adjust the *price* or value of *sale* or repurchase transactions in respect of performance fees accrued or paid if the transactions occur within the accrual period of the charge.

(3) In accordance with ■ COLL 15.4.5R(14) (Table: contents of a long-term asset fund prospectus), the *prospectus* should contain the maximum amount or percentage of *scheme property* that the performance fee might represent in an *annual accounting period*. This disclosure should be given in plain language together with examples of the operation of the performance fee.

15.8.15F **R** Any performance fee specified in the *prospectus* must be calculated on the basis of the *scheme's* performance after deduction of all other payments out of *scheme property*.

Charges on buying and selling units

15.8.15G **R** (1) No *person* other than the *authorised fund manager* may impose charges on *unitholders* or *potential unitholders* when they buy or sell units.

(2) An *authorised fund manager* must not make any charge or levy in connection with:

(a) the *issue* or *sale* of *units* except where a *preliminary charge* is made in accordance with the *prospectus* of the *scheme* which must be:

(i) a fixed amount; or

(ii) calculated as a percentage of the *price* of a *unit*; or

(iii) calculated as a percentage of the amount being subscribed; or

(b) the *redemption* or *cancellation* of *units*, except a *redemption charge* made in accordance with the *prospectus* current at the time the relevant *units* were purchased by the *unitholder*.

Charges on buying and selling units: guidance

15.8.15H **G** (1) To introduce a new charge for the *sale* or *redemption* of *units*, or any new category of remuneration for its services or increase the rate stated in the *prospectus*, the *authorised fund manager* will need to comply with:

(a) ■ COLL 15.4.5R (Table: contents of a long-term asset fund prospectus);

(b) ■ COLL 15.5.10R (Alterations to the scheme and notices to unitholders) (see also the *guidance* in ■ COLL 15.5.11G); and

(c) COLL 15.5.11AR (Change events relating to feeder LTAFs) (see also the *guidance* in COLL 15.5.11BG).

(2) A *redemption* charge may be expressed in terms of amount or percentage. It may also be expressed as diminishing over the time during which the *unitholder* has held the *units* or be calculated on the basis of the *unit price* performance of the *units*. However, any

redemption charge should not be such that it could be reasonably regarded as restricting any right of *redemption*.

- (3) The *prospectus* should contain a statement as to the determination of the order in which *units* that have been acquired at different times by a *unitholder* are to be taken to be *redeemed* or cancelled for the purpose of imposing the *redemption charge*.
- (4) When a *preliminary charge* is calculated as a percentage of the price of a *unit*, the percentage amount should be added to:
 - (a) the price of a *unit* (for a *single-priced authorised fund*); or
 - (b) the *issue price* (for a *dual-priced authorised fund*).

Charges for the exchange of units in an umbrella

- 15.8.15I **R** For a *scheme* which is an *umbrella*, an *authorised fund manager* must not make a charge on an exchange of *units* in one *sub-fund* for *units* in another *sub-fund* unless the amount of the charge is not more than the amount stated in the current *prospectus*.

Allocation of payments to income or capital

- 15.8.15J **R**
- (1) The *authorised fund manager* must determine whether a payment is to be made from the *income property* or *capital property* of an *authorised fund*, and in doing so the *authorised fund manager* must:
 - (a) pay due regard to whether the nature of the cost is income related or capital related and the objective of the *scheme*; and
 - (b) agree the treatment of any payment with the *depository*.
 - (2) Where, for any *class of units* for any *annual accounting period* (see ■ COLL 15.8.18R(2) (Income)), the amount of the *income property* is less than the income distributed, the shortfall must, as from the end of that period, be charged to the *capital account* and must not subsequently be transferred to the *income account*.

Allocation of payments to income or capital: guidance

- 15.8.15K **G**
- (1) Any payment as a result of effecting transactions for the *authorised fund* should be made from the *capital property* of the *scheme*.
 - (2) Other than the payments in (1), all other payments should be made from *income property* in the first instance but may be transferred to the *capital account* in accordance with ■ COLL 15.8.15JR(1) (Allocation of payments to income or capital).
 - (3) For payments transferred to the *capital property* of the *scheme* in accordance with (2), the *prospectus* should disclose the matters in ■ COLL 15.4.5R(14) (Table: contents of a long-term asset fund prospectus).
 - (4) If the *authorised fund manager* wishes to make a change in relation to the allocation of payments, the procedures in ■ COLL 15.5.10R (Alterations to the scheme and notices to unitholders) will be relevant.

Prohibition on promotional payments15.8.15L **R**

- (1) No payment may be made from *scheme property* to any person, other than a payment to the *authorised fund manager* permitted by the rules in COLL, for the acquisition or promotion of the sale of units in an *authorised fund*.
- (2) Paragraph (1) does not apply to the costs an *authorised fund* incurs preparing and printing the *key information document*, provided the *prospectus* states, in accordance with ■ COLL 15.4.5R(14) (Table: contents of a long-term asset fund prospectus), that these costs are properly payable to the *authorised fund manager* from *scheme property*.

Prohibition on promotional payments: guidance15.8.15M **G**

Examples of payments which are not permitted by ■ COLL 15.8.15LR include:

- (1) *commission* payable to intermediaries (such payments should normally be borne by the *authorised fund manager*);
- (2) payments or costs in relation to the preparation or dissemination of *financial promotions* (other than costs allowed under ■ COLL 15.8.15LR(2)).

Payments of liabilities on transfer of assets15.8.15N **R**

- (1) Where the *scheme property* of an *LTAf* is transferred to a second *authorised fund* (or to the *depository* for the account of the *authorised fund*) in consideration of the *issue of units* in the second *authorised fund* to *unitholders* in the first *scheme*, (2) applies.
- (2) The *ICVC* or the *depository* of the *ICVC*, *ACS* or *AUT* as the successor in title to the property transferred may pay out of the *scheme property* any liability arising after the transfer which, had it arisen before the transfer, could properly have been paid out of the property transferred, but only if:
 - (a) there is nothing in the *instrument constituting the fund* of the *LTAf* expressly forbidding the payment; and

the *authorised fund manager* is of the opinion that proper provision was made for meeting such liabilities as were known or could reasonably have been anticipated at the time of the transfer.

Exemptions from liability to account for profits15.8.15O **G**

Except as provided in ■ COLL 15.8.3R (Profits from dealing as principal), an *affected person* is not liable to account to another *affected person* or to the *unitholders* of any *scheme* for any profits or benefits it makes or receives that are made or derived from or in connection with:

- (1) *dealings* in the *units* of a *scheme*; or
- (2) any transaction in *scheme property*; or
- (3) the supply of services to the *scheme*,

where disclosure of the non-accountability has been made in the *prospectus* of the *scheme*.

Allocation of scheme property

15.8.15P **R** For a *scheme* that is an *umbrella*, any assets to be received into, or any payments out of, the *scheme property* which are not attributable to one *sub-fund* only must be allocated by the *authorised fund manager* between the *sub-funds* in a manner that is fair to the *unitholders* of the *umbrella* generally.

Payments: limited protection LTAF classes

15.8.15Q **R**

- (1) This *rule* applies in relation to a *limited protection LTAF class* unless the provisions in ■ COLL 15.8.15EG to ■ COLL 15.8.15PR have been applied.
- (2) Payments out of the *scheme property* may be made from *capital property* rather than from income, provided the basis for this is set out in the *prospectus*.

Movable or immovable property: ICVCs

15.8.16 **R** An *ICVC* must not incur any expense in respect of the use of any movable or immovable property unless the *scheme* is *dedicated* to such investment or such property is necessary for the direct pursuit of its business.

(2) [deleted.]

Exemption from liability to account for profits

15.8.17 **G** Except as provided in ■ COLL 15.8.3R (Profits from dealing as principal), an *affected person* is not liable to account to another *affected person* or to the *unitholders* of the *scheme* for any profits or benefits it makes or receives that are made or derived from or in connection with:

- (1) *dealings* in the *units* of a *scheme*; or
- (2) any transaction in *scheme property*; or
- (3) the supply of services to the *scheme*;
 where disclosure of the non-accountability has been made in the *prospectus* of the *scheme*.

Income

15.8.18 **R**

- (1) A *long-term asset fund* must have:
 - () an *annual accounting period*;
 - () a *half-yearly accounting period*; and
 - () an *accounting reference date*;
 the details of which must be set out in the *prospectus*.

- (2) ■ COLL 6.8.2R(2) to ■ COLL 6.8.2R(7) (Accounting periods) also apply to the *half-yearly accounting period* and *annual accounting period* of a *long-term asset fund*.
- (3) A *long-term asset fund* must have an *annual income allocation date*, which must be within four *months* of the *accounting reference date*.
- (4) A *long-term asset fund* may have an *interim income allocation date* and *interim accounting periods* and if it does, the *interim income allocation date* must be within a reasonable period of the end of the relevant *interim accounting period* as set out in the *prospectus*.
- (5) ■ COLL 6.8.3R(3) (Income allocation and distribution) to ■ COLL 6.8.3AG (Allocation of income to difference classes of unit) also apply to a *long-term asset fund*.