

## Chapter 7

Suspension of dealings,  
termination of authorised  
funds and side pockets



**Matters to be considered by the authorised fund manager before  
creating a side pocket class**

This Annex belongs to COLL 7.8.4R(3)(a) (Conditions for creating side pocket classes).	
<b>1.</b>	<p><b>Investment risk considerations</b></p> <p>(1) Whether there is agreement on which <i>affected investments</i> should be allocated to a <i>side pocket class</i>.</p> <p>(2) The possible impact of relevant sanctions regimes.</p> <p>(3) The <i>authorised fund manager's</i> estimate of the likelihood of the <i>affected investments</i> achieving a realisable value within a range of timeframes.</p> <p>(4) Whether the <i>authorised fund manager</i> intends to invest in <i>affected countries</i> if the economic situation stabilises and relevant sanctions regimes allow it and, if so, how that might affect <i>unitholders</i> in the <i>side pocket class</i>.</p> <p>(5) Whether the <i>authorised fund manager's</i> risk management function (see COLL 6.11 (Risk control and internal reporting)) has assessed the likely consequences for the <i>authorised fund manager</i>, the <i>authorised fund</i> and its <i>unitholders</i> if the <i>authorised fund manager</i> were to take no action to set up a <i>side pocket class</i>.</p> <p>(6) That there is a risk management plan which considers different scenarios for what might happen to the <i>affected investments</i> allocated to the <i>side pocket class</i> and how such scenarios would be dealt with.</p>
<b>2.</b>	<p><b>Costs</b></p> <p>(1) The <i>authorised fund manager's</i> estimated one-off costs of establishing the <i>side pocket class</i> and whether these costs will be met by the <i>authorised fund manager</i>, or paid from the <i>scheme property</i> of the <i>authorised fund</i>, or apportioned between both.</p> <p>(2) The <i>authorised fund manager's</i> estimated ongoing annual costs of operating the <i>side pocket class</i>, and the provision being made to pay these costs:</p> <p>(a) over various scenarios as to the duration of the <i>class</i>; and</p> <p>(b) (to the extent they differ) in relation to the scenarios considered by the risk management</p>

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plan in paragraph 1(6) above.

- (3) Whether the *authorised fund manager* will take a fee for managing the *side pocket class* and, if so, what factors have been considered to determine whether it is set at a fair level and to prevent *unitholders* from being charged undue costs.
- (4) How the total costs, borne by a *unitholder* holding *units* in both the *side pocket class* and a *class* relating to unaffected *investments*, will compare to the total cost that the *unitholder* currently bears.
- (5) If the future total cost for *unitholders* is expected to be higher than the current cost, how this will be justified to *unitholders* against the uncertain benefit of a future realisation of value in the *side pocket class*.

**3. Legal and operational considerations**

- (1) The *authorised fund manager's* legal advice on the implications of setting up a *side pocket class*, having regard to s235(4) and, in the case of an *ICVC*, s236(3) of the *Act* (see the guidance in COLL 7.8.7G).
- (2) Whether the *authorised fund's* auditor has been consulted and its view taken into account.
- (3) Whether the *authorised fund manager* is satisfied that all operational functions for which it is responsible, including fund accounting and transfer agency functions, are able to fully support the *side pocket class*.
- (4) The *authorised fund manager's* assessment of the readiness of *firms* to implement and maintain arrangements for the *side pocket class* to operate effectively, such as those that *arrange* or *deal* in *units* in the *authorised fund*, providers of *SIPPs* and providers of *linked funds*.

**4. Longer-term investor considerations**

- (1) The *authorised fund manager's* policy for allowing *unitholders* to exit the *class* during its lifetime.
- (2) The *authorised fund manager's* view of the likely future options for enabling the *side pocket class* to be terminated.

**5. Overall assessment**

Whether the *governing body* of the *authorised fund manager* is satisfied that:

- (1) the potential benefits to *unitholders* of *units* in any *side pocket class* are proportionate to the estimated costs of establishing and running the *class*, including over the long term;

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- (2) proceeding to set up the *side pocket class* will be in the best interests of the *authorised fund* and its *unitholders*; and
- (3) the *depository* has been properly consulted and its view taken into account.