

Chapter 11

Master-feeder arrangements for UCITS schemes



11.1 Introduction

Application

11.1.1

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This chapter applies to:

- (1) an *authorised fund manager* of an *AUT*, *ACS* or an *ICVC*;
- (2) any other *director* of an *ICVC*;
- (3) an *ICVC*; and
- (4) a *depository* of an *AUT*, *ACS* or *ICVC*;

where such *AUT*, *ACS* or *ICVC* is a *UCITS* scheme that is a *feeder UCITS* or a *master UCITS* in accordance with ■ COLL 11.1.2 R (Table of application).

11.1.1A

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It may be possible for a *UCITS* scheme to be the *feeder UCITS* of a *master UCITS* that is an *EEA UCITS* scheme. In such a case, the ability of the *operator*, *AFM*, *depository*, and auditor of the *feeder UCITS* to comply with the applicable rules may depend upon whether appropriate agreements can be reached with the *management company*, *depository* and auditor of the *master UCITS*. It is not possible for an *EEA UCITS* scheme to be a feeder of a *master UCITS* scheme.

Table of application

11.1.2

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This table belongs to ■ COLL 11.1.1 R

Reference	ICVC	ACD	Any other directors of an ICVC	Authorised fund manager of an AUT or ACS	Depository of an ICVC, AUT or ACS
11.1.1R	x	x	x	x	x
11.1.3G	x	x	x	x	x
11.2.1G	x	x	x	x	
11.2.2R	x	x	x	x	
11.3.1R	x	x	x	x	
11.3.2R	x	x	x	x	
11.3.3G	x	x	x	x	
11.3.4G	x	x	x	x	
11.3.5R	x	x	x	x	

11.3.6R	x	x	x	x	
11.3.7R	x	x	x	x	
11.3.8R	x	x	x	x	
11.3.9R	x	x	x	x	
11.3.11R	x	x	x	x	
11.3.12R	x	x	x	x	
11.3.13R	x	x	x	x	
11.3.14G	x	x	x	x	
11.4.1R	x	x	x	x	x
11.4.2R					x
11.4.3R					x
11.4.4G					x
11.4.5G					x
11.5.6R	x	x	x	x	
11.6.1G	x	x	x	x	x
11.6.2R	x	x	x	x	x
11.6.3R	x	x	x	x	
11.6.4R	x	x	x	x	
11.6.5R	x	x	x	x	
11.6.6R	x	x	x	x	
11.6.7R	x	x	x	x	
11.6.8G	x	x	x	x	
11.6.9R	x	x	x	x	
11.6.10R	x	x	x	x	
11.6.11G	x	x	x	x	
11.6.12R	x	x	x	x	
11.6.13R	x	x	x	x	
11 Annex 1R	x	x	x	x	
11 Annex 2R	x	x	x	x	

Note 1: "x" means "applies", but not every paragraph in every provision referred to will necessarily apply.

Note 2: COLL 11.5 (with the exception of COLL 11.5.6 R) applies to auditors.

Purpose

11.1.3

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- (1) This chapter sets out:
 - (a) the notification requirements for a *UCITS scheme* to be approved as a *feeder UCITS* under section 283A (Master-feeder structures) of the *Act*; and
 - (b) the requirements which apply to a *feeder UCITS* where its *master UCITS* is wound up, merges with another *UCITS* or is divided into one or more *UCITS*.

- (2) This chapter also ensures there is a flow of information and *documents* between a *feeder UCITS* and its *master UCITS*. In particular, it allows the *authorised fund manager, depositary* and auditor of a *feeder UCITS* to obtain all information and *documents* necessary to perform their functions.
- (3) ■ COLL 11.5 (Auditors) also imposes requirements on auditors of a *master UCITS* and a *feeder UCITS*.
- (4) In this section references to:
 - (a) a *UCITS scheme, a feeder UCITS, a master UCITS, or EEA UCITS scheme* include the *sub-fund* of any such *scheme* and references to winding up a *scheme* are to be read as also applying to the termination of a *sub-fund*; and
 - (b) the *management company* of an *EEA UCITS scheme* are to the *operator* of the *scheme*.

11.2 Approval of a feeder UCITS

Explanation

11.2.1

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- (1) Section 283A(1) (Master-feeder structures) of the *Act* provides that the *operator of a UCITS scheme* may not invest a higher proportion of *scheme property* in *units* of another *UCITS* than is permitted by *rules* made by the *FCA* (which implemented article 55 of the *UCITS Directive*), unless the investment is approved by the *FCA* in accordance with that section.
- (2) The relevant *rule* which implemented article 55(1) of the *UCITS Directive* is ■ COLL 5.2.11 R (9), which provides that not more than 20% in value of a *scheme* is to consist of the *units* of any one *collective investment scheme*.

Application for approval of an investment in a master UCITS

11.2.2

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- (1) An application for approval of an investment in a *master UCITS* under section 283A of the *Act* must be accompanied by the following documents:
 - (a) the *instrument constituting the fund* of the *feeder UCITS* and of the *master UCITS*;
 - (b) the *prospectus* and the *key investor information* referred to in ■ COLL 4.7.2 R (Key investor information) of the *feeder UCITS* and of the *master UCITS*;
 - (c) the *master-feeder agreement* or the internal conduct of business rules in accordance with ■ COLL 11.3.2R (2) (Master-feeder agreement and internal conduct of business rules);
 - (d) where applicable, the information to be provided to *unitholders* in accordance with ■ COLL 4.8.3 R (Information to be provided to Unitholders);
 - (e) if the *master UCITS* and the *feeder UCITS* have different *depositories*, the information-sharing agreement in accordance with ■ COLL 11.4.1R (2) (Information-sharing agreement between depositories); and
 - (f) if the *master UCITS* and the *feeder UCITS* have different auditors, the information-sharing agreement in accordance with ■ COLL 11.5.1 R (Information-sharing agreement between auditors).
- (2) Where the *master UCITS* is an *EEA UCITS scheme*, the application for approval must also be accompanied by an attestation from a *person* acceptable to the *FCA* that the *master UCITS*:

- (a) is an *EEA UCITS scheme* or a *sub-fund* of it; and
- (b) fulfils the conditions set out in article 58(3)(b) and (c) of the *UCITS Directive*.

(3) The *documents* referred to in (1) and (2) must be provided in English.

[**Note:** article 59(3) of the *UCITS Directive*]



11.3 Co-ordination and information exchange for master and feeder UCITS

Authorised fund manager of a master UCITS: provision of documentation

11.3.1 **R** The *authorised fund manager* of a *UCITS scheme* that is a *master UCITS* must provide the *management company* of its *feeder UCITS* with all *documents* and information necessary for the latter to meet its regulatory obligations under the provisions of *COLL* applicable in respect of a *UCITS scheme* under this chapter.

[**Note:** article 60(1) first paragraph first sentence of the *UCITS Directive*]

11.3.1A **R** The *authorised fund manager* of a *UCITS scheme* that is a *feeder UCITS* of a *master UCITS* which is an *EEA UCITS scheme* must make a binding arrangement with the *management company* of the *master UCITS* to obtain all *documents* and information necessary to meet its regulatory obligations under the *Act*.

[**Note:** article 60(1) first paragraph first sentence of the *UCITS Directive*]

Master-feeder agreement and internal conduct of business rules

11.3.2 **R**

- (1) The *authorised fund manager* of a *UCITS scheme* that is a *feeder UCITS* must enter into a *master-feeder agreement* which, at a minimum, complies with ■ [COLL 11 Annex 1 R](#).
- (2) Where a *master UCITS* and a *feeder UCITS* are managed by the same *management company*, the *master-feeder agreement* may be replaced by internal conduct of business rules which, at a minimum, comply with ■ [COLL 11 Annex 2 R](#).
- (3) The *authorised fund manager* of a *feeder UCITS* must not invest in *units* of the *master UCITS* in excess of the limit applicable under ■ [COLL 5.2.11 R \(9\)](#) (Spread: general) (20%) until the period of 30 calendar days referred to in ■ [COLL 4.8.3 R \(1\)](#) (Information to be provided to Unitholders) has elapsed and the following have become effective:
 - (a) the *master-feeder agreement*, or, if applicable under (2), the internal conduct of business rules;

- (b) the information-sharing agreement of the *depositories* in accordance with ■ COLL 11.4.1R (2) (Information-sharing agreement between depositories); and
 - (c) the information-sharing agreement of the auditors in accordance with ■ COLL 11.5.1 R (Information-sharing agreement between auditors).
- (4) An *authorised fund manager* of a *feeder UCITS* must make a copy of the *master-feeder agreement* or, where applicable, the internal conduct of business rules, available to *unitholders* free of charge on their request.

[Note: article 60(1) first paragraph last sentence, second and third paragraphs, article 61(1) second paragraph, article 62(1) second paragraph and article 64 third paragraph of the *UCITS Directive*]

11.3.3 G Where an *authorised fund manager* of a *feeder UCITS* enters into a *master-feeder agreement* or, if applicable, internal conduct of business rules, with the *management company* of an *EEA UCITS scheme*, references in ■ COLL 11 Annex 1 R and ■ COLL 11 Annex 2 R to *COLL rules* that implemented provisions in the *UCITS Directive* which are the responsibility of the *EEA UCITS scheme's Home State regulator* should be read as referring to the corresponding provisions in the laws and regulations of that *EEA State*.

11.3.4 G In relation to the requirements in ■ COLL 11 Annex 1 R(3) and ■ Annex 2R(2), where the dealing arrangements between a *master UCITS* and a *feeder UCITS* do not differ from those applying to all non-feeder *UCITS unitholders* of the *master UCITS*, the *master-feeder agreement* or the internal conduct of business rules do not have to replicate those standard dealing arrangements, but may cross-refer to the relevant parts of the *prospectus* of the *master UCITS*.

[Note: recital (8) to the *UCITS implementing Directive No 2*]

Law applicable to the master-feeder agreement

11.3.5 R (1) Where the *feeder UCITS* and the *master UCITS* are *UCITS schemes*, the *master-feeder agreement* must provide that the law of a specified part of the *United Kingdom* applies to the agreement and that both parties agree to the exclusive jurisdiction of the courts of that part of the *United Kingdom*.

(2) Where the *master UCITS* is established in an *EEA State*, the *master-feeder agreement* must provide that the applicable law shall be UK law,

and that both parties agree to the exclusive jurisdiction of the courts of the *UK*.

[Note: article 14 of the *UCITS implementing Directive No 2*]

11.3.5A R (1) Where paragraph (2) applies a *master-feeder agreement* that is effective prior to *IP completion day* need not comply with ■ COLL 11.3.5R(2).

(2) This paragraph applies where the applicable law of the *master-feeder agreement* was:

- (a) UK law before *IP completion day*, and remains so; or
- (b) the law of the *EEA State* in which the *master UCITS* was established before *IP completion day*, and remains so.

Avoidance of opportunities for market timing

11.3.6

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(1) The *authorised fund managers* of a *master UCITS* and its *feeder UCITS* must take appropriate measures to co-ordinate the timing of their net asset value calculation and publication, including the publication of *dealing prices*, in order to avoid market timing in their *units*, preventing arbitrage opportunities.

(2) Where the *master UCITS* is an *EEA UCITS scheme* managed by an *EEA UCITS management company*, the *authorised fund manager* must co-ordinate with that *management company*.

[Note: article 60(2) of the *UCITS Directive*]

Obligations of the feeder UCITS

11.3.7

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(1) An *authorised fund manager* of a *feeder UCITS* must monitor effectively the activity of the *master UCITS*.

(2) In performing this obligation, the *authorised fund manager* of the *feeder UCITS* may rely on information and *documents* received from the *master UCITS*, or where applicable, the *master UCITS' management company, depositary* or auditor, unless there is a reason for doubting their accuracy.

[Note: article 65(1) of the *UCITS Directive*]

Inducements

11.3.8

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Where, in connection with an investment in the *units* of the *master UCITS*, a distribution fee, commission or other monetary benefit is received by:

- (1) a *feeder UCITS*; or
- (2) an *authorised fund manager* of a *feeder UCITS*; or
- (3) any *person* acting on behalf of (1) or (2);

that fee, commission or other monetary benefit must be paid into the *scheme property* of the *feeder UCITS*.

[Note: article 65(2) of the *UCITS Directive*]

Obligations of the master UCITS

11.3.9

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The *authorised fund manager* of a *master UCITS* must immediately inform the *FCA* of the identity of each *feeder UCITS* which invests in its *units*.

[Note: article 66(1) first sentence of the *UCITS Directive*]

11.3.10 **G** [deleted]

- 11.3.11 **R**
- (1) An authorised fund manager of a master UCITS must not impose any preliminary charge or redemption charge on the feeder UCITS for the issue, sale, redemption or cancellation of units in the master UCITS.
 - (2) Where the authorised fund manager of a master UCITS requires any addition to or deduction from the consideration paid on the acquisition or disposal of units by a feeder UCITS which is, or is like, a dilution levy made in accordance with ■ COLL 6.3.8 R (Dilution), it is to be treated as part of the price of the units and not as part of any charge.

[Note: article 66(2) of the UCITS Directive]

11.3.12 **R** An authorised fund manager of a master UCITS must ensure the timely availability of all information that is required in accordance with its obligations under the regulatory system, the general law and the instrument constituting the fund, to:

- (1) the feeder UCITS (or where applicable its management company);
- (2) the FCA;
- (3) the depositary of the feeder UCITS; and
- (4) the auditor of the feeder UCITS.

[Note: article 66(3) of the UCITS Directive]

Obligations to Unitholders of a master UCITS

11.3.13 **R** The authorised fund manager of a UCITS scheme that operates, or intends to operate, as a master UCITS must:

- (1) not enter into a master-feeder agreement or, where applicable, internal conduct of business rules in accordance with ■ COLL 11.3.2R (2) unless it is satisfied on reasonable grounds that the arrangements with the feeder UCITS will not unfairly prejudice the interests of any other unitholder or class of unitholders in the master UCITS;
- (2) consider, in relation to:
 - (a) each item of information it makes available to the feeder UCITS or its management company; and
 - (b) each matter notified by the depositary of the master UCITS in accordance with ■ COLL 11.4.3 R (Notification of irregularities);

whether it would unfairly prejudice the interests of those unitholders in the master UCITS other than the feeder UCITS by not making that information available to them, or by not informing them of that matter at the same time in an appropriate manner; and

11.3.14

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- (3) in relation to any matter within (2)(b) where it does not notify other *unitholders* at the same time:
 - (a) record the grounds for determining that the interests of those *unitholders* are not unfairly prejudiced by its decision; and
 - (b) inform all *unitholders* of that matter in an appropriate manner and timescale.

- (1) The appropriate manner and timescale of notification referred to in ■ COLL 11.3.13R (2) and ■ (3)(b) will depend on the nature and significance of the matter. Consequently, the *authorised fund manager* will need to assess each matter individually.

- (2) An appropriate manner of notification could include sending an immediate notification to the *unitholders*, or arranging for the information to be published on one or more websites where it is reasonable likely to be seen by investors.

- (3) Where ■ COLL 11.3.13R (3)(b) applies, it might be appropriate to include the information in the next long report of the *scheme*.

11.4 Depositaries

Information-sharing agreement between depositaries

11.4.1

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- (1) An *authorised fund manager* of a *feeder UCITS* is responsible for communicating to the *depositary* of the *scheme* any information about the *master UCITS* which is required for the completion of the *depositary's* regulatory obligations.
- (2) Where a *master UCITS* and its *feeder UCITS* have different *depositaries*, the *depositaries* must enter into an information-sharing agreement in order to ensure fulfilment of their respective duties.

[Note: article 61(1) first and fourth paragraphs of the *UCITS Directive*]

Contents of the information-sharing agreement between depositaries

11.4.2

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- (1) The information-sharing agreement referred to in ■ COLL 11.4.1R (2) must include:
 - (a) identification of the *documents* and categories of information which are to be routinely shared between both *depositaries*, and whether that information or those *documents* are provided by one *depositary* to the other or made available on request;
 - (b) the manner and timing, including any applicable deadlines, of the transmission of information by the *depositary* of the *master UCITS* to the *depositary* of the *feeder UCITS*;
 - (c) the co-ordination of the involvement of both *depositaries*, to the extent appropriate in view of their respective duties under national law, in relation to operational matters, including:
 - (i) the procedure for calculating the net asset value of each *scheme*, including any measures appropriate to protect against the activities of market timing in accordance with ■ COLL 11.3.6 R (Avoidance of opportunities for market timing);
 - (ii) the processing of instructions by the *feeder UCITS* to purchase, subscribe or request the repurchase or *redemption* of *units* in the *master UCITS*, and the settlement of those transactions, including any arrangement to transfer assets in kind;
 - (d) the co-ordination of accounting year-end procedures;

(e) what details the *depository* of the *master UCITS* must provide to the *depository* of the *feeder UCITS* of breaches by the *master UCITS* of the law and the *instrument constituting the fund* and how and when those details will be provided;

(f) the procedure for handling ad hoc requests for assistance from one *depository* to the other; and

(g) identification of particular contingent events which ought to be notified by one *depository* to the other on an ad hoc basis, and how and when this will be done.

(2) Where a *master-feeder agreement* exists in accordance with ■ COLL 11.3.2R (1) (Master-feeder agreement and internal conduct of business rules), the information-sharing agreement between the *depositories* must provide that *UK law* applies to that agreement, and both *depositories* agree to the exclusive jurisdiction of the *UK courts* in relation to that agreement.

(3) Where the *master-feeder agreement* has been replaced by internal conduct of business rules in accordance with ■ COLL 11.3.2R (2) (Master-feeder agreement and internal conduct of business rules), the information-sharing agreement between the *depositories* must provide that *UK law* applies to that agreement, and both *depositories* agree to the exclusive jurisdiction of the *UK courts* in relation to that agreement.

[Note: articles 24 and 25 of the *UCITS implementing Directive No 2*]

11.4.2A **R**

(1) Where paragraph (2) applies, an *information-sharing agreement* between the *depositories* that is effective prior to *IP completion day* need not comply with ■ COLL 11.4.2R.

(2) This paragraph applies where the applicable law of the *information sharing agreement* between the *depositories* was:

(a) *UK law* before *IP completion day*, and remains so; or

(b) the law of a given *EEA State* before *IP completion day*, and remains so.

Notification of irregularities

11.4.3 **R**

(1) Where a *depository* of a *master UCITS* detects any irregularities with regards to the *scheme* which may have a negative impact on the relevant *feeder UCITS*, the *depository* must immediately inform:

(a) the *FCA*;

(b) the *feeder UCITS* or, where applicable, its *management company*; and

(c) the *depository* of the *feeder UCITS*.

(2) The irregularities referred to in (1) include, but are not limited to:

(a) errors in the valuation of the *scheme property* performed in accordance with ■ COLL 6.3.3 R (Valuation);

- (b) errors in transactions for or settlement of the *sale, issue, repurchase or redemption of units* in the *scheme* undertaken by the *feeder UCITS*;
- (c) errors in the payment or capitalisation of income arising from the *scheme property*, or in the calculation of any related withholding tax;
- (d) breaches of the investment objectives, policy or strategy of the *scheme* as described in the *instrument constituting the fund*, the *prospectus* or the *key investor information*; and
- (e) breaches of investment and borrowing limits set out in *COLL*, the *instrument constituting the fund*, the *prospectus* or the *key investor information*.

[Note: article 61(2) of the *UCITS Directive* and article 26 of the *UCITS implementing Directive No 2*]

11.4.4

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- (1) When notifying the *FCA* of any irregularities in accordance with ■ *COLL 11.4.3R (1)*, the *depository* of the *master UCITS* should also inform the *depository* of the *feeder UCITS* how the *master UCITS* or its *authorised fund manager* has resolved or proposes to resolve the irregularity.
- (2) Where the *depository* of a *UCITS scheme* that is a *feeder UCITS* is informed by the *depository* of a *master UCITS* of an irregularity and is not satisfied that the resolution or proposed resolution is in the interests of the *unitholders* of the *scheme*, it should promptly report its view to the *authorised fund manager* of the *scheme*, or in the case of an *ICVC*, the *directors*.

[Note: recital (16) to the *UCITS implementing Directive No 2*]

Disclosure by a trustee or depository

11.4.5

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Section 351A (Disclosure under the *UCITS directive*) of the *Act* provides that where a *trustee* of an *AUT* or the *depository* of an *ACS* which is a *master UCITS* or a *feeder UCITS*, or any *person* acting on their behalf, makes a disclosure to comply with *rules* implementing Chapter VIII of the *UCITS Directive*, that disclosure is not to be taken as a contravention of any duty to which the *person* making the disclosure is subject. The *OEIC Regulations* (see regulation 83A) contain corresponding provisions for the *depositories* of *ICVCs* that are *feeder UCITS* and *master UCITS*.



11.5 Auditors

Information-sharing agreement between auditors

11.5.1 **R** Where a *master UCITS* and a *feeder UCITS* have different auditors, those auditors must enter into an information-sharing agreement in order to ensure the fulfilment of their respective duties, including the arrangements taken to comply with ■ COLL 11.5.3 R and ■ COLL 11.5.4 R (Preparation of the audit report).

[Note: article 62(1) first paragraph of the *UCITS Directive*]

Contents of the information-sharing agreement between auditors

- 11.5.2 **R**
- (1) The information-sharing agreement referred to in ■ COLL 11.5.1 R must include:
 - (a) identification of the *documents* and categories of information which are to be routinely shared between both auditors;
 - (b) whether the information or *documents* referred to in (a) are to be provided by one auditor to the other or made available on request;
 - (c) the manner and timing, including any applicable deadlines, of the transmission of information by the auditor of the *master UCITS* to the auditor of the *feeder UCITS*;
 - (d) the co-ordination of the involvement of each auditor in the accounting year-end procedures for their respective *scheme*;
 - (e) identification of matters that must be treated as irregularities and disclosed in the audit report for the *master UCITS* for the purposes of ■ COLL 11.5.3R (2);
 - (f) the manner and timing for handling ad hoc requests for assistance from one auditor to the other, including a request for further information on irregularities disclosed in the audit report for the *master UCITS*; and
 - (g) provisions regarding the preparation of the audit reports referred to in ■ COLL 11.5.3 R and ■ COLL 4.5.12 R (Report of the auditor) and the manner and timing for the provision of the audit report for the *master UCITS* (and drafts of it) to the auditor of the *feeder UCITS*.
 - (2) Where the *feeder UCITS* and the *master UCITS* have different accounting year-end dates, the information-sharing agreement must include the manner and timing by which the auditor of the *master*

UCITS is to make the ad hoc report as required by ■ COLL 11.5.4 R and to provide it (and drafts of it) to the auditor of the *feeder UCITS*.

- (3) Where a *master-feeder agreement* exists in accordance with ■ COLL 11.3.2R (1) (Master-feeder agreement and internal conduct of business rules), the information-sharing agreement between the auditors must provide that *UK law* applies to that agreement, and both auditors agree to the exclusive jurisdiction of the *UK courts* in relation to that agreement.
- (4) Where the *master-feeder agreement* has been replaced by internal conduct of business rules in accordance with ■ COLL 11.3.2R (2) (Master-feeder agreement and internal conduct of business rules), the information-sharing agreement between the auditors must provide that *UK law* applies to that agreement, and both auditors agree to the exclusive jurisdiction of the *UK courts* in relation to that agreement.

[Note: articles 27 and 28 of the *UCITS implementing Directive No 2*]

11.5.2A R

- (1) An *information-sharing agreement* between the auditors that is effective prior to *IP completion day* need not comply with ■ COLL 11.5.2R.
- (2) This paragraph applies where the applicable law of the *information-sharing agreement* between the auditors was:
 - (a) *United Kingdom law* before *IP completion day*, and remains so; or
 - (b) the law of a given *EEA State* before *IP completion day*, and remains so.

Preparation of the audit report

11.5.3 R

When preparing its audit report, the auditor of a *feeder UCITS* must:

- (1) take into account the audit report of the *master UCITS*; and
- (2) report on any irregularities revealed in the audit report of the *master UCITS* and their impact on the *feeder UCITS*.

[Note: article 62(2) first paragraph first sentence and second paragraph of the *UCITS Directive*]

11.5.4 R

Where a *master UCITS* and one or more of its *feeder UCITS* have different accounting years, the auditor of the *master UCITS* must make an ad hoc report on the closing date of the accounting year of each *feeder UCITS*.

[Note: article 62(2) first paragraph second sentence of the *UCITS Directive*]

Disclosure by an auditor

11.5.5 G

Section 351A of the *Act* provides that where an auditor of an *AUT* or *ACS* which is a *master UCITS* or a *feeder UCITS*, or any *person* acting on their behalf, makes a disclosure to comply with rules implementing Chapter VIII of the *UCITS Directive*, that disclosure is not to be taken as a contravention of any duty to which the *person* making the disclosure is subject. The *OEIC Regulations* (see regulation 83A) contain corresponding provisions for auditors of *ICVCs* that are *feeder UCITS* and *master UCITS*.

Responsibility of authorised fund managers

11.5.6

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The *authorised fund managers* of a *master UCITS* and a *feeder UCITS* must ensure that the terms on which auditors of their respective *schemes* are appointed require each auditor to comply with the *rules* in this section.

11.6 Winding up, merger and division of master UCITS

Explanation

11.6.1

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- (1) Section 258A(1) and (2) and section 261Z(1) and (2) (Winding up or merger of master UCITS) of the Act, provide that where a *master UCITS* is wound up, for whatever reason, the FCA is to direct the *manager* and *trustee* of any *AUT* or the *authorised contractual scheme manager* and *depository* of any *ACS* which is a *feeder UCITS* of the *master UCITS* to wind up the *scheme*, unless one of the following conditions is satisfied:
- (a) the FCA approves under section 283A (Master-feeder structures) of the Act the investment by the *feeder UCITS* of at least 85% in value of the *scheme property* in *units* of another *master UCITS*; or
 - (b) the FCA approves under section 252A or section 261S (Proposal to convert to a non-feeder UCITS) of the Act an amendment of the *trust deed* or *contractual scheme deed* of the *feeder UCITS* which would enable it to convert into a *UCITS scheme* which is not a *feeder UCITS*.
- (2) Section 258A(3) and (4) and section 261Z(3) and (4) of the Act further provide that where a *master UCITS* merges with another *UCITS* or is divided into two or more *UCITS*, the FCA is to direct the *manager* and *trustee* of any *AUT* or the *authorised contractual scheme manager* and *depository* of any *ACS* which is a *feeder UCITS* of the *master UCITS* to wind up the *scheme*, unless one of the following conditions is satisfied:
- (a) the FCA approves under section 283A of the Act the investment by the *feeder UCITS* of at least 85% in value of the *scheme property* in *units* of:
 - (i) the *master UCITS* which results from the merger;
 - (ii) one of the *UCITS* resulting from the division; or
 - (iii) another *UCITS* or *master UCITS*; or
 - (b) the FCA approves under section 252A or section 261S of the Act an amendment of the *trust deed* or *contractual scheme deed* of the *feeder UCITS* which would enable it to convert into a *UCITS scheme* which is not a *feeder UCITS*.
- (3) The *OEIC Regulations* (see regulations 33A and 33B respectively) contain corresponding provisions for *feeder UCITS* which are structured as *ICVCs*.

Winding up and liquidation of master UCITS: Time limit within which a master UCITS is to be wound up pursuant to FCA direction

- 11.6.2 **R**
- (1) The commencement of winding up of a *UCITS scheme* that is a *master UCITS* must take place no sooner than 3 months after a notification is made to its *unitholders* and the *FCA* informing it of the binding decision to wind up the *master UCITS*.
 - (2) Paragraph (1) is without prejudice to any provision of the insolvency legislation in force in the *United Kingdom* regarding the compulsory liquidation of *AUTs*, *ACSSs* or *ICVCs*.

[Note: article 60(4) last sentence of the *UCITS Directive*]

Application for approval by a feeder UCITS where a master UCITS is wound up

11.6.3 **R** Where the *authorised fund manager* of a *UCITS scheme* that is a *feeder UCITS* is notified that its *master UCITS* is to be wound up, it must submit to the *FCA* the following:

- (1) where the *authorised fund manager* of the *feeder UCITS* intends to invest at least 85% in value of the *scheme property* in *units* of another *master UCITS*:
 - (a) its application for approval under section 283A of the *Act* for that investment;
 - (b) where applicable, its notice under section 251 (Alteration of schemes and changes of manager or trustee) of the *Act*, section 261Q of the *Act* (Alteration of contractual schemes and changes of operator or depositary) or regulation 21 (The Authority's approval for certain changes in respect of a company) of the *OEIC Regulations* of any proposed amendments to its *instrument constituting the fund*;
 - (c) the amendments to its *prospectus* and its *key investor information* in accordance with **COLL 4.2.3 R (1)(b)** (Provision and filing of the prospectus) and **COLL 4.7.7 R (1)** (Revision and filing of key investor information); and
 - (d) the other *documents* required in accordance with **COLL 11.2.2 R** (Application for approval of an investment in a master UCITS);
- (2) where the *authorised fund manager* of the *feeder UCITS* intends to convert it into a *UCITS scheme* that is not a *feeder UCITS*:
 - (a) its application for approval under section 252A or section 261S of the *Act* or regulation 22A of the *OEIC Regulations* of the proposed amendments to its *instrument constituting the fund*; and
 - (b) the amendments to its *prospectus* and its *key investor information* in accordance with **COLL 4.2.3 R (1)(b)** and **COLL 4.7.7 R (1)**; and
- (3) where the *authorised fund manager* of the *feeder UCITS* intends to wind up the *scheme*, a notice under section 251 or section 261Q of

the Act or regulation 21 of the *OEIC Regulations* of a proposal to that effect.

[Note: article 20(1) of the *UCITS implementing Directive No 2*]

Timing of applications for approval: winding up of a master UCITS

11.6.4

R

- (1) The information in ■ COLL 11.6.3 R must be submitted no later than two *months* after the date on which the *master UCITS* has informed the *authorised fund manager* of the *feeder UCITS* of the binding decision to be wound up.
- (2) By way of derogation from (1), where the *master UCITS* has informed the *authorised fund manager* of the *feeder UCITS* of the binding decision to be wound up more than five *months* before the date at which the winding up will start, the *authorised fund manager* must submit the information to the *FCA* at the latest three *months* before the day the winding up will start.

[Note: article 20(1) first sentence and article 20(2) of the *UCITS implementing Directive No 2*]

Application for approval by a feeder UCITS where a master UCITS merges or divides

11.6.5

R

Where the *authorised fund manager* of a *UCITS* scheme that is a *feeder UCITS* is notified that the *master UCITS* is to merge with another *UCITS* scheme or *EEA UCITS* scheme or divide into two or more such schemes, it must submit to the *FCA* the following:

- (1) where the *authorised fund manager* of the *feeder UCITS* intends it to continue to be a *feeder UCITS* of the same *master UCITS*:
 - (a) its application under section 283A of the Act, for approval;
 - (b) where applicable, a notice under section 251 or section 261Q of the Act or regulation 21 of the *OEIC Regulations* of any proposed amendments to the *instrument constituting the fund*; and
 - (c) where applicable, the amendments to its *prospectus* and its *key investor information* in accordance with ■ COLL 4.2.3 R (1)(b) and ■ COLL 4.7.7 R (1);
- (2) where the *authorised fund manager* of the *feeder UCITS* intends it to become a *feeder UCITS* of another *master UCITS* resulting from the proposed merger or division of the *master UCITS*, or intends the *feeder UCITS* to invest at least 85% in value of the *scheme property* in *units* of another *master UCITS* not resulting from the merger or division:
 - (a) its application under section 283A of the Act for approval of that investment;
 - (b) where applicable, a notice under section 251 or section 261Q of the Act or regulation 21 of the *OEIC Regulations* of any proposed amendments to the *instrument constituting the fund*;

- (c) the amendments to its *prospectus* and its *key investor information* in accordance with ■ COLL 4.2.3 R (1)(b) and ■ COLL 4.7.7 R (1);
 - (d) the other *documents* required in accordance with ■ COLL 11.2.2 R;
- (3) where the *authorised fund manager* of the *feeder UCITS* intends it to convert into a *UCITS scheme* that is not a *feeder UCITS*:
- (a) its application for approval under section 252A or section 261S of the *Act* or regulation 22A of the *OEIC Regulations* of the proposed amendments to the *instrument constituting the fund*; and
 - (b) the amendments to its *prospectus* and its *key investor information* in accordance with ■ COLL 4.2.3 R (1)(b) and ■ COLL 4.7.7 R (1); and
- (4) where the *authorised fund manager* of the *feeder UCITS* intends to wind up the *scheme*, a notice under section 251 or section 261Q of the *Act* or regulation 21 of the *OEIC Regulations* of a proposal to that effect.

[Note: article 22(1) of the *UCITS implementing Directive No 2*]

Interpretation of COLL 11.6.5R

11.6.6

R

- (1) For the purposes of ■ COLL 11.6.5R (1), a *feeder UCITS* will be considered as continuing to be a *feeder UCITS* of the same *master UCITS* where:
- (a) the *master UCITS* is the *receiving UCITS* in a proposed *UCITS merger*; or
 - (b) the *master UCITS* is to continue materially unchanged as one of the resulting *UCITS schemes* or *EEA UCITS schemes* in a proposed division.
- (2) For the purposes of ■ COLL 11.6.5R (2), a *feeder UCITS* will be considered as becoming a *feeder UCITS* of another *master UCITS* resulting from the merger or division of the *master UCITS* where:
- (a) the *master UCITS* is the *merging UCITS* and, as a result of the *UCITS merger*, the *feeder UCITS* becomes a *unitholder* of the *receiving UCITS*; or
 - (b) the *feeder UCITS* as a result of the division becomes a *unitholder* of a *UCITS scheme* or *EEA UCITS scheme* that is materially different to the *master UCITS*.

[Note: article 22(2) of the *UCITS implementing Directive No 2*]

Timing of applications for approval: merger or division of a master UCITS

11.6.7

R

- (1) The information in ■ COLL 11.6.5 R must be submitted to the *FCA* no later than one *month* after the date on which the *authorised fund manager* of the *feeder UCITS* has received the information of the planned merger or division in accordance with regulation 13(6) of the *UCITS Regulations 2011*.

- (2) By way of derogation from (1), where the *master UCITS* provides the information referred to in, or comparable with, ■ COLL 7.7.10 R (Information to be given to Unitholders) to the *authorised fund manager* of the *feeder UCITS* more than four *months* before the proposed effective date of the merger or division of the *master UCITS*, the *authorised fund manager* must submit the information to the *FCA* at least three *months* before the proposed effective date.

[Note: article 22(1) first sentence and article 22(3) of the *UCITS implementing Directive No 2*]

Repurchase or redemption of units in a master UCITS

11.6.8

G

Regulation 12(4) (Right of redemption) of the *UCITS Regulations 2011* provides that where a *UK master UCITS* merges with another *scheme*, the *master UCITS* must enable its *feeder UCITS* to repurchase or *redeem* all the *units* of the *master UCITS* in which they have invested before the consequences of the merger become effective, unless the *FCA* approves the continued investment by the *feeder UCITS* in a *master UCITS* resulting from the merger.

11.6.9

R

- (1) Where:
- (a) the *authorised fund manager* of a *feeder UCITS* has submitted the *documents* required under ■ COLL 11.6.5R (2) and ■ (3); and
 - (b) does not receive the necessary approvals from the *FCA* by the *business day* preceding the last *day* on which the *authorised fund manager* of the *feeder UCITS* can request repurchase or *redemption* of its *units* in the *master UCITS*;
- the *authorised fund manager* of the *feeder UCITS* must exercise the right to repurchase or *redeem* its *units* in the *master UCITS* under regulation 12(4) of the *UCITS Regulations 2011*.
- (2) The *authorised fund manager* of the *feeder UCITS* must also exercise the right in (1) to ensure that the right of its own *unitholders* to request repurchase or *redemption* in the *feeder UCITS* in accordance with ■ COLL 4.8.3 R (1)(d) (Information to be provided to Unitholders) is not affected.
- (3) Before exercising the right in (1), the *authorised fund manager* of the *feeder UCITS* must consider any available alternative solutions which may help to avoid or reduce transaction costs or other negative impacts for its own *unitholders*.
- (4) Where the *authorised fund manager* of the *feeder UCITS* requests repurchase or *redemption* in accordance with (1), it must receive one of the following:
- (a) the repurchase or *redemption* proceeds in cash; or
 - (b) some or all of the repurchase or *redemption* proceeds as a transfer in kind, where the *authorised fund manager* of the *feeder UCITS* so wishes and where its *instrument constituting the fund* and the *master-feeder agreement* provide for it.

- (5) Where (4)(b) applies, the *authorised fund manager* of the *feeder UCITS* may realise any part of the transferred assets for cash at any time.

[Note: articles 23(4) and 23(5) of the *UCITS implementing Directive No 2*]

Conditions on reinvestment of cash

11.6.10

R

Where:

- (1) the *FCA* approves an application under sections 283A (Master-feeder structures), 252A or 261S (Proposal to convert to a non-feeder *UCITS*) of the *Act* or regulation 22A of the *OEIC Regulations* that arises as a result of the winding-up, merger or division of the *master UCITS* (other than an application pursuant to ■ COLL 11.6.5R (1)); and
- (2) the *authorised fund manager* of the *feeder UCITS* holds or receives cash in accordance with ■ COLL 11.6.9R (4) or as a result of a winding-up;

the *authorised fund manager* may not re-invest that cash, except for the purpose of efficient cash management, before the date on which the *feeder UCITS* invests in *units* of the *master UCITS* in accordance with ■ COLL 11.3.2R (3) (Master-feeder agreement and internal conduct of business rules) or in accordance with its new investment objectives and policy.

[Note: article 23(6) of the *UCITS implementing Directive No 2*]

11.6.11

G

■ COLL 11.6.10 R gives effect to sections 283A(4), 252A(8) and 261S(8) of the *Act* and regulation 22A(4) of the *OEIC Regulations* which require the *FCA* to impose certain conditions when approving the re-investment of cash received from a *master UCITS* which has been wound up.

11

Requirements following approval by the FCA

11.6.12

R

Where the *authorised fund manager* of a *feeder UCITS* has submitted the *documents* required under ■ COLL 11.6.3R (1), ■ COLL 11.6.3R (2), ■ COLL 11.6.5R (1), ■ COLL 11.6.5R (2) or ■ COLL 11.6.5R (3) and has received written notice of any required approvals from the *FCA*, it must:

- (1) inform the *master UCITS* of those approvals; and
- (2) in the case of the required approvals received in respect of *documents* submitted under ■ COLL 11.6.3 R (1) and ■ COLL 11.6.5 R (2), take the necessary measures to comply with the requirements of ■ COLL 4.8.3 R as soon as possible.

[Note: articles 21(2), 21(3), 23(2) and 23(3) of the *UCITS implementing Directive No 2*]

Notification by feeder UCITS of intention to be wound up

11.6.13

R

Where the *authorised fund manager* of a *feeder UCITS* gives notice to the *FCA* under section 251 or section 261Q of the *Act* or regulation 21 of the *OEIC Regulations* that it intends to wind up the *scheme*, it must inform:

- (1) the *unitholders* of the *feeder UCITS*; and
- (2) where notice is given under ■ **COLL 11.6.5R (4)** (Application for approval by a feeder UCITS where a master UCITS merges or divides), the *authorised fund manager* of the *master UCITS*;

of its intention without undue delay.

[**Note:** articles 20(3) and 22(4) of the *UCITS implementing Directive No 2*]

Contents of the standard master-feeder agreement

This table belongs to the *rule* on the conclusion and prescribed content of a standard *master-feeder agreement* (■ COLL 11.3.2R (1)).

- (1) Provisions related to access to information by a *master UCITS* and a *feeder UCITS*:
- (a) how and when the *master UCITS* provides the *feeder UCITS* with a copy of its *instrument constituting the fund, prospectus* and *key investor information* or any amendment of them;
 - (b) how and when the *master UCITS* informs the *feeder UCITS* of a delegation of investment management and risk management functions to third parties in accordance with COLL 6.6.15AR;
 - (c) where applicable, how and when the *master UCITS* provides the *feeder UCITS* with internal operational documents, such as its risk management process and its compliance reports;
 - (d) what details of breaches by the *master UCITS* of;
 - (i) the law;
 - (ii) the *instrument constituting the fund*; and
 - (iii) the *master-feeder agreement*;
 must be notified to the *feeder UCITS* and the manner and timing thereof;
 - (e) where a *feeder UCITS* uses *derivatives* for hedging purposes, how and when the *master UCITS* will provide the *feeder UCITS* with information about its actual exposure to *derivatives* to enable the *feeder UCITS* to calculate its own global exposure as envisaged by COLL 5.8.4 R (Exposure to derivatives); and
 - (f) a statement that the *master UCITS* must inform the *feeder UCITS* of any other information-sharing arrangements entered into with third parties and, where applicable, how and when the *master UCITS* makes those other information-sharing arrangements available to the *feeder UCITS*.

[Note: article 8 of the *UCITS implementing Directive No 2*]

- (2) Provisions related to the basis of investment and divestment by the *feeder UCITS*:
- (a) a statement of which *classes of units* of the *master UCITS* are available for investment by the *feeder UCITS*;
 - (b) the charges and expenses to be borne by the *feeder UCITS* and details of any rebate or retrocession of charges or expenses by the *master UCITS*; and
 - (c) where applicable, the terms on which any initial or subsequent transfer of assets in kind may be made from the *feeder UCITS* to the *master UCITS*.

[Note: article 9 of the *UCITS implementing Directive No 2*]

- (3) Provisions related to standard dealing arrangements:
- (a) co-ordination of the frequency and timing of the net asset value calculation process and the publication of prices of *units*;
 - (b) co-ordination of transmission of dealing orders by the *feeder UCITS*, including, where applicable, the role of transfer agents or any other third party;
 - (c) where applicable, any arrangements necessary to take account of the fact that the *units* of the *master UCITS* or the *feeder UCITS* are listed or traded on a secondary market;

- (d) where necessary, appropriate measures to ensure compliance with the requirements in COLL 11.3.6 R (Avoidance of opportunities for market timing);
- (e) where the *units* of the *feeder UCITS* and the *master UCITS* are denominated in different currencies, the basis for conversion of dealing orders;
- (f) settlement cycles and payment details for purchases or subscriptions and repurchases or *redemptions* of *units* of the *master UCITS* including, where agreed between the parties, the terms on which the *master UCITS* may settle *redemption* requests by a transfer of assets in kind to the *feeder UCITS*, notably where a *master UCITS* is wound up, merges with another *UCITS scheme* or *EEA UCITS scheme* or divides into two or more such *schemes*;
- (g) procedures to ensure enquiries and complaints from *unitholders* are handled appropriately; and
- (h) where the *instrument constituting the fund* and prospectus of the *master UCITS* give it certain rights or powers in relation to *unitholders*, and the *master UCITS* chooses to limit or forego the exercise of all or any such rights and powers in relation to the *feeder UCITS*, a statement of the terms on which it does so.

[Note: article 10 of the *UCITS implementing Directive No 2*]

- (4) Provisions related to events affecting dealing arrangements:
 - (a) the manner and timing of a notification by either the *master UCITS* or the *feeder UCITS* of the temporary suspension and resumption of repurchase, *redemption*, purchase or subscription of its *units*; and
 - (b) the arrangements for notifying and resolving pricing errors in the *master UCITS*.

[Note: article 11 of the *UCITS implementing Directive No 2*]

- (5) Provisions related to the standard arrangements for the audit report:
 - (a) where the *feeder UCITS* and the *master UCITS* have the same accounting years, the co-ordination of the production of their periodic reports; and
 - (b) where the *feeder UCITS* and the *master UCITS* have different accounting years, arrangements for the *feeder UCITS* to obtain any necessary information from the *master UCITS* to enable it to produce its periodic reports on time and which ensure that the auditor of the *master UCITS* is in a position to produce an ad hoc report on the closing date of the accounting year of the *feeder UCITS* in accordance with COLL 11.5.4 R (Preparation of the audit report).

[Note: article 12 of the *UCITS implementing Directive No 2*]

- (6) Provisions related to changes to the standing arrangements:

How and when notice is to be given:

 - (a) by the *master UCITS* of proposed and effective amendments to its *instrument constituting the fund*, *prospectus* and *key investor information*, if these details differ from the standard arrangements for notification of *unitholders* laid down in the *instrument constituting the fund* or *prospectus* of the *master UCITS*;
 - (b) by the *master UCITS* of a planned or proposed winding up, *merger* or division;
 - (c) by either the *feeder UCITS* or the *master UCITS* that it has ceased or will cease to meet the qualifying conditions to be a *feeder UCITS* or a *master UCITS* respectively;
 - (d) by either the *feeder UCITS* or the *master UCITS* that it intends to replace its *management company*, its *depository*, its auditor or any third party which is mandated to carry out investment management or risk management functions; and
 - (e) by the *master UCITS* of other changes to standing arrangements that it undertakes to provide.

[Note: article 13 of the *UCITS implementing Directive No 2*]

Contents of the internal conduct of business rules

This table belongs to the *rule* on the conclusion and prescribed content of the internal conduct of business rules (■ COLL 11.3.2R (2)).

- (1) Provisions related to conflicts of interest
- (a) The internal conduct of business rules referred to in COLL 11.3.2R (2) must include appropriate measures to mitigate conflicts of interest that may arise between:
- (i) the *feeder UCITS* and the *master UCITS*; or
 - (ii) the *feeder UCITS* and other *unitholders* of the *master UCITS*;
- to the extent that these are not sufficiently addressed by the measures applied by the *management company* in order to meet the requirements of the provisions listed in (b).
- (b) The provisions referred to in (a) are:
- (i) SYSC 10.1.4 R (Types of conflicts);
 - (ii) SYSC 10.1.6 R (Record of conflicts);
 - (iii) SYSC 10.1.10 R (Conflicts policy);
 - (iv) SYSC 10.1.11 R (Contents of policy);
 - (v) SYSC 10.1.17 R (Additional requirements for a management company);
 - (vi) SYSC 10.1.19 R (Structure and organisation of a management company);
 - (vii) SYSC 10.1.20 R (Avoidance of conflicts of interest for a management company);
 - (viii) SYSC 10.1.21 R (Disclosure of conflicts for a management company); and
 - (ix) COLL 6.6A.6 R (Strategies for the exercise of voting rights);
- or the equivalent provisions implementing articles 12(1)(b) and 14(1)(d) of the *UCITS Directive* and Chapter III of the *UCITS implementing Directive*.

[Note: article 15 of the *UCITS implementing Directive No 2*]

- (2) Provisions related to the basis of investment and divestment by the *feeder UCITS*:
- (a) a statement of which *classes* of *units* of the *master UCITS* are available for investment by the *feeder UCITS*;
 - (b) the charges and expenses to be borne by the *feeder UCITS* and details of any rebate or retrocession of charges or expenses by the *master UCITS*; and
 - (c) where applicable, the terms on which any initial or subsequent transfer of assets in kind may be made from the *feeder UCITS* to the *master UCITS*.

[Note: article 16 of the *UCITS implementing Directive No 2*]

- (3) Provisions related to standard dealing arrangements:
- (a) co-ordination of the frequency and timing of the net asset value calculation process and the publication of prices of *units*;
 - (b) co-ordination of transmission of dealing orders by the *feeder UCITS*, including, where applicable, the role of transfer agents or any other third party;
 - (c) where applicable, any arrangements necessary to take account of the fact that *units* of the *master UCITS* or the *feeder UCITS* are listed or traded on a secondary market;

- (d) where necessary, appropriate measures to ensure compliance with the requirements in COLL 11.3.6 R (Avoidance of opportunities for market timing);
- (e) where the *units* of the *feeder UCITS* and the *master UCITS* are denominated in different currencies, the basis for conversion of dealing orders;
- (f) settlement cycles and payment details for purchases or subscriptions and repurchases or *redemptions* of *units* of the *master UCITS* including, where agreed between the parties, the terms on which the *master UCITS* may settle *redemption* requests by a transfer of assets in kind to the *feeder UCITS*, notably where a *master UCITS* is wound up, merges with another *UCITS scheme* or *EEA UCITS scheme* or divides into two or more such *schemes*; and
- (g) where the *instrument constituting the fund* and *prospectus* of the *master UCITS* give it certain rights or powers in relation to *unitholders*, and the *master UCITS* chooses to limit or forego the exercise of all or any such rights and powers in relation to the *feeder UCITS*, a statement of the terms on which it does so.

[Note: article 17 of the *UCITS implementing Directive No 2*]

(4) Provisions related to events affecting dealing arrangements:

- (a) the manner and timing of notification by either the *master UCITS* or the *feeder UCITS* of the temporary suspension and resumption of repurchase, *redemption*, purchase or subscription of its *units*; and
- (b) the arrangements for notifying and resolving pricing errors in the *master UCITS*.

[Note: article 18 of the *UCITS implementing Directive No 2*]

(5) Provisions related to the standard arrangements for the audit report:

- (a) where the *feeder UCITS* and the *master UCITS* have the same accounting years, the co-ordination of the production of their periodic reports; and
- (b) where the *feeder UCITS* and the *master UCITS* have different accounting years, arrangements for the *feeder UCITS* to obtain any necessary information from the *master UCITS* to enable it to produce its periodic reports on time and which ensure that the auditor of the *master UCITS* is in a position to produce an ad hoc report on the closing date of the accounting year of the *feeder UCITS* in accordance with COLL 11.5.4 R (Preparation of the audit report).

[Note: article 19 of the *UCITS implementing Directive No 2*]