

Chapter 11

Master-feeder arrangements under 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 *UCITS Directive*.

[**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* implementing 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 *feeder UCITS* and the *master UCITS* are established in different *EEA States*, the *master-feeder agreement* must provide that the applicable law shall be either:
- (a) the law of the *EEA State* in which the *feeder UCITS* is established; or
 - (b) the law of the *EEA State* in which the *master UCITS* is established;

and that both parties agree to the exclusive jurisdiction of the courts of the *EEA State* whose law they have stipulated to be applicable to the agreement.

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

Avoidance of opportunities for market timing

11.3.6 **R** (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 either the *master UCITS* or *feeder 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 **R**
- (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 **R**
- 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 **R**
- 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**
- Where the *FCA* is informed in accordance with **COLL 11.3.9 R** that a *feeder UCITS* which is an *EEA UCITS scheme* has invested in *units* of the *master UCITS*, section 261A and section 261Z4 (Information for home state regulator) of the *Act* and regulation 29A (Information for home state regulator) of the *OEIC Regulations* require the *FCA* to inform the *Home State regulator* of the *feeder UCITS* immediately.

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

- 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 *competent authority* of the *feeder UCITS*;
- (3) the *depository* 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 *depository* 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
- (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.

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- (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*.