

Handbook Notice No 126

January 2025

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1 Overview

Legislative changes

- 1.1 On 30 January 2025, the Board of the Financial Conduct Authority (FCA) made the relevant changes to the Handbook as set out in the instrument listed below.

CP	Title of instrument	Instrument No	Changes effective
CP24/11	Collective Investment Schemes Sourcebook (Concentration Limits) Instrument 2025	FCA 2025/1	31/01/2025

Summary of changes

- 1.2 The legislative changes referred to above are listed and briefly described in Chapter 2 of this notice.

Feedback on responses to consultations

- 1.3 Consultation feedback is published in Chapter 3 of this notice.

FCA Board dates for 2025

- 1.4 The table below lists forthcoming FCA Board meetings. These dates are subject to change without prior notice.

FCA board meetings		
February	27	2025
March	27	2025
May	1	2025
May	22	2025
June	26	2025
July	31	2025
October	2	2025
October	30	2025
November	27	2025
December	18	2025

2 Summary of changes

- 2.1 This Handbook Notice describes the changes to the FCA Handbook and other material made by the FCA Board under their legislative and other statutory powers on 30 January 2025. Where relevant, it also refers to the development stages of that material, enabling readers to look back at developmental documents if they wish. For information on changes made by the Prudential Regulation Authority (PRA) please see www.bankofengland.co.uk/news/publications.

Collective Investment Schemes Sourcebook (Concentration Limits) Instrument 2025

- 2.2 Following consultation in [CP24/11](#), the FCA Board has made changes to the Handbook sections listed below:

COLL 5.2 and COLL TP 1.1

- 2.3 In summary, this instrument makes changes to an existing rule that sets limits on the ability of a UCITS scheme to hold units of other collective investment schemes ("second schemes"). The rule aims to reinforce appropriate risk diversification in a UCITS fund of funds. The changes clarify how the rule applies to umbrella/sub-fund structures, and disapply the rule in certain situations where the investing UCITS scheme and second scheme are managed by the same firm.
- 2.4 This instrument came into force on 31 January 2025. Feedback is published in a Chapter 3 of this notice.

3 Consultation feedback

- 3.1 This chapter provides feedback on consultations that will not have a separate policy statement published by the FCA.

CP 24/11: Collective Investment Schemes Sourcebook (Concentration Limits) Instrument 2025

Background

- 3.2 In Consultation Paper (CP) [24/11](#), we consulted on a proposal to modify the investment rules for funds authorised as undertakings for collective investment in transferable securities (UCITS) so they would work more effectively for funds with an umbrella/sub-fund structure. We proposed to apply the UCITS concentration rules to umbrella UCITS schemes at the sub-fund level rather than the umbrella level, and to clarify at which level COLL 5.2.29R(3) applies to an umbrella Collective Investment Scheme (CIS) that is the target fund of such investments.
- 3.3 It is common for UCITS schemes to invest into units of other CISs, creating a 'fund-of-funds' structure. This is a type of fund structure that we expect to see, and so we wish to facilitate this kind of structure where appropriate risk controls are in place.

Summary of proposals

- 3.4 To ensure that UK UCITS schemes maintain a prudent spread of risk, and to limit the influence one scheme may hold over another, a UCITS scheme is subject to rules limiting the proportion of financial instruments issued by another entity that it can own. This is set out in the concentration rule (COLL 5.2.29R).
- 3.5 For umbrella structures with 2 or more sub-funds, other rules in COLL 5.2 to COLL 5.5 that set investment limits generally apply to each umbrella at the sub-fund level. But COLL 5.2.30R(1)(c) applies the concentration rule at the umbrella level. The concentration rule forms part of the rules that aim to avoid situations where a UK UCITS scheme might exercise significant influence over another entity in a way that harms investors in the UK UCITS.
- 3.6 The application of this rule at the umbrella level can mean that some types of fund-of-funds investment propositions cannot be run as efficiently as they otherwise could be. We proposed modifying the concentration rule by deleting sub-paragraph (1)(c) of COLL 5.2.30R so that the 25% maximum limit applies to each individual sub-fund in an umbrella. This will allow an authorised fund

manager (AFM) greater investment flexibility when managing a range of UK UCITS schemes organised as sub-funds within an umbrella.

- 3.7 We also proposed to clarify that the reference in COLL 5.2.29R(3), to a CIS which is the target of investment by a UCITS scheme (a 'second scheme'), applies to each sub-fund of an umbrella, rather than the umbrella as a whole.
- 3.8 It will still be possible for an AFM to operate a fund of funds with fewer restrictions under the non-UCITS retail scheme (NURS) regime.

How this links to our objectives

- 3.9 We consider that the amendments are compatible with our strategic objective to ensure that relevant markets function well. By taking a proportionate regulatory approach, both of the changes are consistent with the effective functioning of financial services markets and are compatible with the FCA's secondary international competitiveness and growth objective.
- 3.10 We consider that the amendments advance our operational objective of promoting effective competition in the interests of consumers in the relevant financial markets. Deletion of COLL 5.2.30R(1)(c) will enable firms to offer a wider range of products, enabling effective competition and ultimately benefiting the consumer. We are satisfied that the changes secure an appropriate degree of consumer protection while also promoting competition in the interests of consumers.

Feedback

- 3.11 We received seven responses to our consultation. Respondents were largely supportive of our proposals, with several suggesting that they are in line with common interpretations of the concentration rules that implemented the UCITS Directive. Several respondents felt that the proposals would enable consistency across the UK and EU UCITS regimes, promoting efficient competition.
- 3.12 Two respondents asked us to clarify what we mean by '25% of the units in a collective investment scheme'. This could be interpreted as meaning 25% of the number of units in issue, or as meaning 25% of the scheme's net asset value.
- 3.13 Three respondents pointed to scenarios where the proposed rules would be overly restrictive and cause issues. Two respondents argued that it is common for newly launched funds to be seeded by a single fund or small number of funds, often managed by the same manager. In the fund's early days there are likely to be breaches if the 25% maximum limit is applied at sub-fund level.
- 3.14 Two respondents pointed to internal fund-of-funds structures where both the target fund and investing fund are managed by the same AFM. Respondents felt that in these cases, the risk of undue influence is addressed by the requirement for the depositary to exercise the voting rights for these holdings.

3.15 Three respondents suggested that, where this rule change would require fund managers to make changes to how a fund is managed, the proposed 6-month transitional period may not be enough time to adjust their positions while ensuring the interests of investors are protected.

3.16 Two respondents asked that we clarify how any such changes to a fund's prospectus should be treated.

Our response

3.17 We consider that the reference in COLL 5.2.29R(3) to 'more than 25% of the units' relates to the value of scheme property, not the number of units in issue. We understand that most AFMs interpret the rule as we do, but for the sake of clarity we have amended sub-paragraph (3) accordingly.

3.18 We have considered the reported scenarios where our proposals would not go far enough to remove perceived restrictions in allowing a UCITS scheme to invest in another fund that is managed in-house. The rule does not distinguish between in-house arrangements and investments made by AFMs operating at arm's length from the target fund.

3.19 We think there is a case for greater flexibility in certain situations where both the investing fund and the target fund are authorised funds managed by the same AFM. This reflects the fact that, since the concentration rule was originally designed, a number of further regulatory safeguards have been introduced to the UCITS framework to uphold the principle of maintaining a prudent spread of risk in the portfolio of the investing fund.

3.20 Each firm is required to act in the best interests of each scheme and its investors. The AFM will have an overall risk management framework to identify and mitigate risks arising to both funds from such investments, such as the risk of impaired liquidity in the target fund if a large proportion of its units are held by a single investor. Both the AFM and any portfolio manager to whom it delegates investment management functions must also comply with rules on avoiding or managing any conflict that could arise between the interests of the two schemes and their respective investors.

3.21 Given these safeguards, we think it is proportionate to disapply COLL 5.2.29R (3) when a UCITS scheme invests in units of an authorised CIS managed by the same AFM, provided that any delegation of portfolio and/or risk management in relation to either fund is made to the same firm. The flexibility would cover situations where the AFM performs one or more of these functions in-house while delegating the remainder to an external manager, or where the delegate performs the entirety of the functions for both funds.

- 3.22 This will ensure that the risks to both funds are always considered and managed in a connected way. The AFM will need to be able to justify to the investors of each fund how it has considered their respective best interests when making any investment in excess of 25% of the units of the target fund.
- 3.23 We note the concerns expressed about the length of the proposed transitional period. Although we believe that the post-consultation changes to our rules should reduce any need for significant rebalancing of fund portfolios, we have nevertheless extended the transitional period to 12 months from when the changes became effective on 31 January 2025. This should allow sufficient time for an AFM to update fund prospectuses in the course of their regular review cycle.
- 3.24 We do not foresee that applying these changes would result in a significant change to a fund's prospectus and therefore they should not require FCA approval. Any updates to the prospectus should be emailed to ukcis@fca.org.uk. Although we would envisage that in most instances the rule changes would have no material impact on the way a fund is operated and managed, we would expect firms to engage with fund investors as appropriate.

Cost benefit analysis

- 3.25 Section 138I(2)(a) of FSMA requires us to publish a cost benefit analysis (CBA) when proposing draft rules unless, in accordance with section 138L(3) of FSMA, we believe that there will be no increase in costs or that the increase will be of minimal significance. In [CP24/11](#), we explained our view that no CBA was required for our proposals because the amendments would not lead to an increase in costs or the increase would be of minimal significance. Our position remains unchanged.

Equality and diversity statement

- 3.26 We have had due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Equality Act 2010, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.
- 3.27 We continue to believe that the rules we have made will not adversely impact any of the groups with protected characteristics under the Equality Act 2010 and no concerns were raised during consultation.

Environmental, social and governance considerations

- 3.28 We have considered the environmental, social and governance implications of our proposals and our duty under sections 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net zero emissions target under

section 1 of the Climate Change Act 2008. Overall, we do not consider that the rule changes are relevant to contributing to those targets.

Rule Review Framework

- 3.29 We have taken into account our duties under the Rule Review Framework and consider that this amendment do not require ongoing monitoring.

4 Additional information

Making corrections

- 4.1 The FCA reserves the right to make correctional or clarificatory amendments to the instruments made at the Board meeting without further consultation should this prove necessary or desirable.

Publication of Handbook material

- 4.2 This notice is published on the FCA website and is available in hardcopy.
- 4.3 The formal legal instruments (which contain details of the changes) can be found on the FCA's website listed by date, reference number or module at www.handbook.fca.org.uk/instrument. The definitive version of the Handbook at any time is the version contained in the legal instruments.
- 4.4 The changes to the Handbook are incorporated in the consolidated Handbook text on the website as soon as practicable after the legal instruments are published.
- 4.5 The consolidated text of the Handbook can be found on the FCA's website at www.handbook.fca.org.uk/. A print version of the Handbook is available from The Stationery Office's shop at www.tsoshop.co.uk/Financial-Conduct-Authority-FCA/.
- 4.6 Copies of the FCA's consultation papers referred to in this notice are available on the FCA's website.

Obligation to publish feedback

- 4.7 This notice fulfils for the relevant text made by the Board the obligations in sections 138I(4) and (5) and similar sections of the Financial Services and Markets Act 2000 ('the Act'). These obligations are: to publish an account of representations received in response to consultation and the FCA's response to them; and to publish (where applicable) details of any significant differences between the provisions consulted on and the provisions made by the Board, with a cost benefit analysis and a statement under section 138K(4) of the Act if a proposed

altered rule applies to authorised persons which include mutual societies.

Comments

- 4.8 We always welcome feedback on the way we present information in the Handbook Notice. If you have any suggestions, they should be sent to handbook.feedback@fca.org.uk (or see contact details at the end of this notice).

Annex

List of non-confidential respondents

We are required by section 138I(4A) of the Act to include a list of the names of respondents to rules consultations where the respondent has consented to the publication of their name. This annex lists the names of consenting respondents for consultations where those names are not otherwise listed in a separate consultation response document.

CP24/11: Collective Investment Schemes Sourcebook (Concentration Limits) Instrument 2025

AJ Bell

NFU Mutual Unit Managers Ltd.

Mr T. Pool

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This Handbook Notice describes the changes to the Handbook and other material made by the FCA Board under their legislative and other statutory powers on 30 January 2025.

It also may contain information about other publications relating to the Handbook and, if appropriate, lists minor corrections made to previous instruments made by the Board.

Contact names for the individual modules are listed in the relevant consultation papers and policy statements referred to in this notice.

General comments and queries on the Handbook can be addressed to:

Lisa Ocerro
Tel: 02070660198
Email: Lisa.Ocerro@fca.org.uk

However, queries on specific requirements in the Handbook should be addressed first to your normal supervisory contact in the FCA. For most firms this will be the FCA's Contact Centre:

Tel: 0300 500 0597
Fax: 0207 066 0991
Email: firm.queries@fca.org.uk
Post: Contact Centre
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

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