

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: UKLA Technical Note: UKLA/TN/409.1 Master-feeder structures share classes

Lead regulator: FCA

Date of assessment: March 2017

Commencement date: Guidance finalised November 2015

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? National

Brief outline of proposed new or amended regulatory activity

Companies listed on the Official List (and typically admitted to the London Stock Exchange's Main Market) are subject to a number of rules when joining the market, as well as continuing obligations governing conduct, disclosure rules on an ongoing basis and on an ad hoc basis when they issue further securities. The rules are set out in the FCA's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules. There are additional directly applicable requirements set out in European regulations, notably the Market Abuse Regulation (MAR).

The FCA's UK Listing Authority Department (UKLA) publishes Technical Notes and Procedural Notes, which are short guidance notes intended to provide additional clarity to listed companies and their advisers as to how the FCA interprets provisions in these rulebooks. The FCA typically issues these when it has received a number of questions on the same topic, or other market feedback. The guidance provided in these notes is new guidance, which was subject to public consultation and finalised in November 2015. The guidance provided in these notes is new guidance, which was subject to public consultation and finalised in November 2015. The objective of this new guidance is to clarify our rules and help firms to have a better understanding about application of those rules.

Technical Note 409.1, published in November 2015 in Primary Bulletin 12, provides guidance to premium listed, closed-ended investment companies with master-feeder structures. A master-feeder fund is a structure commonly used by hedge funds, whereby investors put capital into feeder funds, which ultimately invest assets into the master fund. The master fund is responsible for making all portfolio investments and conducting trading activity.

The Technical Note provides guidance in relation to unconventional master-feeder structures (for example, where the feeder fund also proposes to invest some funds directly (outside of the master fund), or where the feeder fund holds a majority percentage stake in the master fund that allows it to exercise control over the master fund. The guidance makes clear that, when considering the eligibility of a new applicant feeder fund, the FCA expects the sponsor to be able to demonstrate that there is a genuine master-feeder relationship, as distinct from a fund that holds investments through subsidiaries or other controlled special purpose vehicles. There are currently 45 sponsor firms approved by the FCA; premium listed companies must appoint sponsors in relation to certain transactions or situations where the listing rules require their guidance.

The guidance also discusses feeder funds proposing to make direct investments; these funds will need to consider whether they continue to meet the criteria for a feeder fund, Technical Note 409.1 serves only to provide guidance on the existing Listing Rules for companies seeking new listings and does not impose any new or additional requirements on new or existing companies.

Which type of business will be affected? How many are estimated to be affected?

The guidance is only relevant to the approximately 300 closed-ended investment companies with a premium listing on the Official List. As a practical matter, this guidance is only relevant to those closed-ended investment companies which have master-feeder structures, however as it is not practical to quantify the number of listed companies with such structures, we have included the total cost for all closed-ended investment companies.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2015	November 2015	10	-0.014	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

Note – for all cost estimates below we have assumed the guidance will be applied by experienced compliance staff at an estimated rate of £48/hour. The 2016 Robert Half salary guide estimates that a compliance manager in the risk and compliance function of a financial services company based in London earns between £70,000 and £104,000 per annum. Based on working 8 hours per day for 260 days each year our rate equates to £100,000 per annum and is therefore considered a suitably prudent figure for the purposes of our estimates.

Familiarisation cost

We expect that all of the approximately 300 closed-ended investment companies with a premium listing on the Official List would find it helpful to familiarise themselves with the one page guidance note. As a practical matter, this guidance is only relevant to the smaller subset of closed-ended investment companies which have master-feeder structures, however as it is not practical to quantify the number of listed companies with such structures, we have included the total cost for all closed-ended investment companies.

For the approximately 300 closed-ended investment companies with an existing premium listing on the Official List, we would expect that the note would take less than one hour to read, digest, and disseminate to any relevant members of staff, and, if necessary, update the relevant procedure to reflect the guidance. This is an estimate of the maximum amount of

time it might take a company, as the one page note provides practical considerations in relation to specific eligibility considerations under the existing rules.

At the estimated rate of £48/ hour, the total estimated cost for all 300 closed-ended investment companies would be £14,400.

Ongoing cost

We consider that this publication creates no ongoing costs for business because the expectations set out in it are wholly inherent in the existing rules and add no new obligations to those rules for any firms. The technical note only provides guidance as to the application of existing Listing Rules in relation to master-feeder structures. Although difficult to reliably quantify, on a net basis we expect the guidance to make the application of the Listing Rules easier and quicker by providing a clear discussion of the FCA's expectations in relation to the underlying rules, producing a cost saving for businesses.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

The level of detail to which individual measures are scored is set to the nearest £100k. This means that where the total cost of measures is estimated at less than £50k they are scored as zero (both as EANDCB and BIT score) for reporting purposes.

Link to Robert Half salary centre: <https://www.roberthalf.co.uk/news-insights/salary-centre-2016>