Review of the UK funds regime:
A call for input
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Foreword

The UK’s financial services industry is a national asset. It employs over a million people, represents around 10% of total tax revenues and exceeds £20 billion in exports. Asset managers sit at the heart of this industry, supporting sectors from insurance to banking, channelling capital into productive investments and at the same time helping millions of individuals save and invest.

For the last three years I have had the pleasure of chairing the Asset Management Taskforce, which has focused on ensuring the UK’s asset management industry can realise its full potential. The UK funds regime has been a key focus and the UK Funds Regime Working Group made its recommendations to the Taskforce last year, providing the backdrop for this wide-reaching review encompassing regulation and direct and indirect tax.

This is a key moment for our economy, as we move forward in our new relationship with the EU and seek to rebuild from the COVID-19 pandemic, and the opportunities are clear. Improvements to the funds regime will result in a wider range of more efficient investments, better suited to investors’ needs. With the correct fund structures, tax regime and regulatory environment, we can unleash the investment into productive and green technologies that will enable us to meet this government’s ambitious and pioneering commitment to net zero by 2050. And growing the number of funds located in the UK can also level up our economy, by supporting jobs outside of London; funds are a major employer of jobs across the UK, with the sector already having a notable presence in Edinburgh, Manchester, Leeds, Nottingham, Bolton, Glasgow, Stirling, Essex, Swindon and Dorset.

I look forward to seeing the detailed proposals that emerge from this call for input.

John Glen, Economic Secretary to the Treasury
Chapter 1

Introduction

Background

The UK asset management sector

1.1 The UK is already an attractive location for asset management. The UK’s asset management industry is the largest in Europe and the second largest globally, with around £9.9 trillion assets under management. The industry contributes around 1% of the UK’s GDP, generating significant tax revenue and employment: currently around 113,000 people are employed either directly by asset management firms in the UK or in areas that result from or support asset management activity.

1.2 UK funds and asset management firms are key to the management of the savings and pensions of millions of people across the UK, the EU and globally. They support the process of raising capital from investors who range from pension funds to individuals and corporates, and the efficient allocation of investments across global capital markets. They play a vital role in economic growth by providing funding to businesses at all stages of the life cycle, whether that be a start-up, scale-up or international conglomerate.

1.3 The asset management industry includes portfolio management and fund administration. Portfolio management involves making decisions on how a fund’s assets are invested while fund administration involves setting up and running fund vehicles, including services such as processing statements and managing investors’ subscriptions and disinvestments. The UK is already a leading jurisdiction for portfolio management, but the government has been told that the UK’s overall strength in asset management could be built on further by addressing barriers to establishing and running funds within the UK.

The review of the UK funds regime

1.4 At Budget 2020 the government announced that it would carry out a review of the UK funds regime to consider reforms which hold the potential to enhance the UK’s attractiveness as a location for asset management and for


3 The Investment Association Annual Survey, p. 96.
funds in particular. Alongside this call for input the review also encompasses two separate workstreams, which were also announced at Budget.

1.5 First, the government consulted on the tax treatment of asset holding companies (AHCs) in alternative fund structures. On 15 December 2020, the government responded to its AHCs consultation and launched a further detailed consultation on these AHCs proposals. Second, the government committed to reviewing the VAT treatment of fund management fees, which the government intends to take forward in 2021.

1.6 This call for input sets out the objectives, scope and next steps for the wider review, which are outlined in this introductory chapter. The remainder of this document seeks views to help HM Treasury identify which reforms should be taken forward and how these should be prioritised.

Objectives

1.7 The overarching objective of the review is to identify options which will make the UK a more attractive location to set up, manage and administer funds, and which will support a wider range of more efficient investments better suited to investors’ needs. Further detail on this objective is set out below.

1.8 When considering proposals, the government is clear that any tax reforms will be compatible with its robust approach on avoidance and evasion, and with the UK’s international commitments. They will also ensure the UK can effectively exercise taxing rights over UK source income. Similarly, any changes to regulation will support the UK’s commitment to upholding the highest standards of regulation and appropriate supervisory oversight and investor protection. The government recognises that the UK’s robust regulatory regime and its commitment to upholding these standards are key strengths across financial services, including funds.

Growing the UK asset management industry

1.9 UK expertise in portfolio management is already a global export. Enhancing the attractiveness of the UK funds regime will help to open opportunities for asset managers to sell UK funds around the world and offer the potential to further grow assets under management in the UK. Enhancing the reputation of the UK for fund location and administration can therefore go hand in hand with cementing the UK’s status as a world-leading hub for portfolio management.

1.10 The government also recognises the global nature of this market, and that the success of investment funds relies on the ability for asset managers to select the best expertise from around the globe. This is underpinned by the portfolio delegation model which allows funds to outsource portfolio management to other jurisdictions and which allows the international asset management ecosystem to continue providing the best possible outcomes for consumers and businesses globally. The government remains completely committed to supporting portfolio delegation from and to the UK as a means to promote market efficiency, investor choice and to reflect the international nature of financial markets.
Supporting jobs across the UK

1.11 Fund administration jobs do not need to be located in existing UK financial services hubs, and indeed are already distributed across the country. Increasing the number of funds domiciled and administered in the UK can therefore support jobs right across the UK, building on the existing position. The government is actively seeking views on how to support the growth of such fund administration clusters outside of London and the South East.

Enabling investors to meet their goals

1.12 The UK funds regime can play a key role in ensuring the asset management sector can fulfil its economic purpose by enabling investors to meet their goals and by allocating capital to the economy. It can help to ensure that there are effective products for the retirement income and drawdown market, which has been transformed since the Pensions Freedoms reforms, and to meet the needs of defined contribution (DC) pension schemes, which have grown substantially since the introduction of automatic enrolment and which will continue to grow.

1.13 One way the UK funds regime can do this is by improving the routes through which capital can be committed into long-term assets. The Department for Work and Pensions has recently undertaken a consultation proposing to make it easier for DC schemes to invest in long-term assets. The outcome of this consultation will be published in Spring 2021 alongside regulations seeking to increase consolidation of the DC pensions market and to increase investment by pension schemes in ‘illiquid’ assets. Allocation to long-term assets is important for pension schemes and other investors, providing a source of diversification and potential for enhanced returns, and for the success of the UK economy, with capital required to fund the post-COVID recovery, modernise and upgrade infrastructure, transition to a carbon neutral economy and support innovation in private enterprise to drive productivity growth. This builds upon the work driven by the government’s Patient Capital Review and will complement the work being taken forward by the Productive Finance Working Group.4

Scope of this call for input

1.14 This call for input is wide-ranging, covering direct and indirect tax and relevant areas of funds regulation. This reflects the fact that firm- and fund-level decisions are taken by reference to the overall commercial, tax and regulatory environment for funds. It will also consider broader issues important to the success of the regime such as the roles of industry and government to make the UK regime a global success, for example through trade promotion.

1.15 The government recognises that there is a significant pre-existing body of work. The call for input will build on that work through extensive engagement with a wide range of stakeholders on some of the specific

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policy proposals that have already been put to the government. This includes the recommendations of the UK Funds Regime Working Group, which made a series of recommendations in its report to the Asset Management Taskforce in 2019. The government will also consider new ideas that stakeholders wish to put forward.

1.16 The following chapters seek stakeholder input on possible changes to the UK funds regime, to inform the government’s overall approach:

- Chapter 2: The UK’s approach to funds taxation
- Chapter 3: The UK’s approach to funds regulation
- Chapter 4: Opportunities for wider reform

Areas that are out of scope for this call for input

1.17 Changes to the tax framework for AHCs are being taken forward in a separate consultation and are therefore not within the scope of this call for input.

1.18 In order to provide a functioning statute book following our departure from the EU, after the 2016 EU referendum the government undertook a process to ‘onshore’ the existing body of directly applicable retained EU law. This included converting into UK domestic law the directly applicable Level 2 regulations under the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive and the Alternative Investment Fund Managers Directive (AIFMD). The government does not intend to make changes to this ‘onshored’ legislation or the associated Level 1 legislation at this time and so is not seeking views on these areas via this call for input.

1.19 The UK was the first major economy to legislate for net zero emissions by 2050 and the asset management industry has a key role to play in channelling investment into companies, technologies and infrastructure that will enable that transition. The review of the UK funds regime will help to facilitate this by improving the routes in the UK funds regime through which capital can be committed into long-term investments which support these aims. In November 2020 the government announced a series of initiatives which will support the development of sustainable and responsible investment in the UK, including becoming the first country to make disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) mandatory across the economy, implementing a new ‘green taxonomy’, joining the International Platform on Sustainable Finance and issuing our first ever Sovereign Green Bond in 2021, subject to market conditions. The government has also stated that it is considering legislation relating to the Sustainable Finance Disclosure Regulation. These areas are being taken forward separately and are not within the scope of this call for input.

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5 The Asset Management Taskforce was established by HM Treasury in 2017 to encourage greater dialogue between the government, the industry and the FCA. It is a regular forum chaired by the Economic Secretary to the Treasury.
How to respond to this call for input

1.20 The government welcomes views from all interested parties to this initial call for input. We recognise that some respondents will be interested in all the areas for discussion, whereas others may have more specific interests.

1.21 The government requests all responses by 20 April 2021. You can respond by emailing ukfundsreview@hmtreasury.gov.uk.

1.22 The government understands that some of the questions in this call for input could require firms to disclose commercially sensitive information and wishes to reassure respondents that this information will be handled appropriately. The Financial Conduct Authority (FCA) share this commitment to ensure that sensitive information is handled appropriately and, unless otherwise requested, responses relating to matters within their remit will be shared with the FCA for use in their policy development.

1.23 The government is conscious of the impact that COVID-19 has had on stakeholder groups, including on capacity, established ways of working and priorities. The government is therefore open to receiving responses to this call for input through virtual feedback discussions where this is requested.

Next steps

1.24 The government will analyse responses to this call for input. Informed by this exercise, the government then intends to consult on specific proposals for reform.

1.25 HM Treasury, working with other departments and regulators as necessary, will prioritise measures that have the greatest impact and those that can be delivered swiftly. To assist this, stakeholders are strongly encouraged to set out in their responses what ought to be priority areas for reform, and why.

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1 This call for input on the UK funds regime is necessarily wide-ranging. As the government would not be able to take forward all proposals immediately, what do you think the top 3 priority proposals should be for government implementation and why?
Chapter 2
The UK's approach to funds taxation

Current funds landscape

2.1 A fundamental component of the UK’s approach to the taxation of funds is to ensure that investor decisions are not distorted by tax considerations. Specifically, the government considers that tax implications should not discourage investment through funds, which can provide substantial benefits to investors such as investment diversification, risk management and reduced transaction costs.

2.2 The UK funds regime therefore seeks to ensure tax neutrality, such that an investor investing through a fund will be in a similar tax position as if they had invested in the underlying assets of the fund directly. While the exact approach taken varies from country to country, this fundamental principle is widely recognised and adhered to. Nevertheless, in some instances (often depending on the type of investor and/or fund vehicle), tax neutrality can be difficult to achieve in practice.

2.3 The government has sought to ensure that the taxation of UK funds remains competitive, with relevant structures for investment by both retail and institutional investors investing in a range of asset classes. Over the past 10 years, some of the more notable reforms have included:

- the introduction of tax transparent Co-ownership Authorised Contractual Schemes (CoACS), which are aimed at institutional investors investing in assets such as securities and real estate. The vehicle has been successful, with over 195 CoACS in the UK;¹

- changes made to the Investment Trust Company (ITC) regime in 2011, removing cliff-edges in the rules and providing more certainty of tax treatment. The uptake of ITCs since the regime was amended demonstrates that the changes have been well received by industry. There are currently around 250 ITCs in the UK investing in a range of assets, from securities to alternative assets, such as renewable energy;

- changes to the tax rules for unauthorised unit trusts in 2013, which simplified the rules and removed administrative burdens while also preserving tax efficiency for exempt investors such as UK pension funds; and

¹ https://www.fca.org.uk/firms/authorised-recognised-funds
• more general tax changes, such as amendments to the Substantial Shareholding Exemption for institutional investors in 2016.

2.4 This call for input offers an opportunity to reflect on and assess the efficacy of previous reforms, which will help inform any future measures. The government therefore welcomes reflections on the effectiveness of any recent policy changes in strengthening the UK’s position as a location for asset management and fund domicile, and how those changes might be built upon.

2 How effective were recent reforms to UK funds taxation in achieving their aims? Please explain your answer. Could anything have made these reforms more effective, particularly in terms of increasing the attractiveness of the UK as a location to set up funds?

Scope for change

Current challenges

2.5 In most situations, the UK funds regime achieves tax-efficient outcomes. However, the government is aware of a number of concerns that have been raised about the competitiveness of the UK regime relative to other countries.

2.6 Areas of continued interest and/or concern for the industry, from a tax perspective, include:

• the tax neutrality principle, which does not always hold for funds that are investing in a mix of equity and debt instruments (‘balanced funds’);

• a perception that there are unnecessary barriers and complexity within the existing Real Estate Investment Trust (REITs) rules;

• cases where the UK approach to VAT on fund management services can create incentives for the domicile of funds outside of the UK; and

• tax treaty benefits historically enjoyed by UK-domiciled funds, which will be of continued importance.

The government is interested in exploring whether there are improvements that could be made to the UK’s funds tax rules. More detail is provided on each of these below.

Multi-asset / balanced authorised funds

2.7 Multi-asset or balanced funds hold a blend of investments in both equities and debt and might not fall within the definition of a ‘bond fund’. Therefore, income from interest-bearing investments and derivative contracts are taxed within the fund, without the ability to make an interest distribution

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2 A bond fund is a fund where at least 60% of its market value for a distribution period is generated from qualifying investments, such as fixed-income assets. See Regulations 18-21 of the Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964).
to investors and receive a corresponding deduction for distribution at fund level. This results in ‘tax drag’ in the fund, which ultimately reduces returns to the individual investor.³

2.8 The government previously introduced the Tax-Elected Fund (TEF) regime, which was intended to overcome the issues raised for balanced funds, by requiring the TEF to make two distributions: a dividend distribution and a non-dividend distribution. However, the government is aware that there has been low take-up of TEFs by industry, in part because of the availability of platform access to stream different income sources to investors. The government is keen to better understand this and any additional reasons for low take-up of TEFs.

3 Why has uptake of TEFs been limited? Please explain any operational or commercial factors that have influenced their uptake. How could these be addressed?

2.9 The UK Funds Regime Working Group has made several suggestions, which the government is considering further. The key recommendations here were:

- changes to the tax rates applied to UK funds, including applying a low rate of tax to authorised funds – which has the potential to address tax drag at fund level. The government also wishes to ensure that income retains its character when it is distributed to investors.

- deemed deductions for distributions at fund level – where the government is keen to explore how investors would be taxed on different types of income.

- amendments to the TEF regime – here, the government would like to better understand the barriers to establishing a TEF, and how these might be removed.

- extension of corporate streaming to individuals – the corporate streaming rules allow corporate investors to claim credit for tax incurred at the fund level through their Corporation Tax return, but the government has significant concerns around the viability of this option for individual investors. It would likely add complexity and increase administration for the investor and HMRC.

The government is seeking further evidence to properly appraise the effectiveness of these proposed changes. In particular, the government is keen to better understand how these proposals would work in practice to reduce tax leakage and any potential operational impacts on HMRC. Exchequer cost will also be a significant consideration.

³ Due to the corporate streaming rules, this would not apply to those investors who are taxable to Corporation Tax. Rather, the issue would be limited to investors taxable to Income Tax and tax-exempt investors.
4 How would the proposals in paragraph 2.9 improve tax efficiency of multi-asset authorised funds? Please explain how the proposals would work in practice and how a proportionate impact on HMRC could be ensured.

5 Are there any additional changes the government could consider to reduce tax leakage in multi-asset/balanced authorised funds?

Tax-exempt fund

2.10 The government is also open to considering more fundamental changes to its approach to the taxation of funds, where they would lead to a better position vis-à-vis tax neutrality or otherwise deliver improvements to the regime (for example by introducing simplifications).

2.11 One option would be to exempt authorised funds from tax altogether, in line with an approach taken in certain other jurisdictions. While a more direct approach to achieving neutrality, there is a need to consider the impact this could have on funds’ ability to access treaty benefits when investing in foreign markets and the extent to which this would detract from the benefits of exemption, along with the potential Exchequer cost.

2.12 Elsewhere, the option more commonly raised by stakeholders is for an unauthorised tax-exempt fund structure for investment in alternative assets. This could be either a closed-ended or open-ended body corporate, and could act either as a feeder fund or a master fund. Again, the government understands that other jurisdictions have adopted this approach.

2.13 Either option above would be a major departure from the current approach, and the government therefore needs to build a sufficient evidence base to justify taking forward any proposals. In particular, the government wants to understand how widely such structures would be taken up and how they might influence the attractiveness of the UK as a location for fund domicile. As described above, many funds already achieve tax neutrality.

6 Where funds are already tax neutral, how would a tax-exempt status for funds influence decisions about how and where to set up funds?

7 How would tax-exempt funds affect the competitiveness and attractiveness of the UK funds regime? Please explain your answer providing evidence and international comparisons where possible.

Real Estate Investment Trusts

2.14 A key element of the UK funds regime is investment in property. The UK tax regime currently makes provision for two vehicles specifically aimed at investment in real estate: Real Estate Investment Trusts (REITs) and Property Authorised Investment Funds (PAIFs). The rules for both vehicles provide
exemption from tax at fund level for property income gains which may then be streamed to investors, with withholding tax applied if appropriate, to prevent distortions at investor level and ensuring effective exercise of taxing rights over UK source property income and gains.

2.15 The rules for REITs can be complex but a number of changes have been suggested where certain rules no longer serve their original purpose or could be simplified. The government will consider how to prioritise some of these changes that were suggested as part of the initial AHCs consultation. This will include considering relaxation of the listing requirement, changes to how the close company test is applied, the application of the holders of excessive rights rules and how the ‘balance of business’ test operates. There is further detail in the government’s publication setting out the response to the initial AHCs consultation and launching the next stage of this exercise. And the proposals for new UK unauthorised funds (covered in Chapter 4), which have the potential to facilitate investment in underlying UK real estate assets, are also relevant in this context.

2.16 Other issues raised in responses to the government’s initial AHCs consultation include:

- the interest cover test at s543 of the Corporation Tax Act (CTA) 2010 creates a charge where the required ratio is not met. Larger REITs are now also subject to the Corporate Interest Restriction, which applies where a group or company has net interest and other financing costs of over £2 million. It has been suggested that it is burdensome having both tests and that the interest cover test may no longer be necessary.

- the 3-year development rule at s556 CTA was introduced to remove the need to consider intention when REITs dispose of property shortly after significant development work. It has been suggested that the rule should be amended to bring it up to date with current practices and the commercial environment.

- the REIT rules require a company to hold at least 3 properties. It has been suggested that if a REIT were able to hold a single property this would make the UK regime more attractive to investors.

- under the current rules, where a REIT holds overseas property in a UK company it is likely to suffer tax in the overseas jurisdiction as well as UK tax withheld paying the property income distribution to investors. This acts as a barrier to REITs holding overseas property in a UK company. It has been suggested that amendment of the rules to remove this barrier will make the UK REIT regime more attractive to investors wishing to hold property across wide geographical areas.

8 What would be the likely impact if changes were made to the REIT regime in the areas discussed in paragraph 2.16? To what extent could investment in the UK be expected to increase, and what would be the drivers for this? Could such changes be expected to impact
the extent to which funds with UK and foreign property assets are managed in the UK?

9 Are there any other reforms to the REIT regime that the government ought to consider, and why?

Indirect tax

2.17 Alongside direct tax, the government is keen to explore issues with the indirect tax regime insofar as it relates and applies to funds.

2.18 We are aware that the UK approach to VAT on fund management services can create incentives for the domicile of funds outside of the UK. Assessing the correct VAT treatment is currently complex, leading to high administrative burdens and significant volumes of litigation. Leaving the EU presents an opportunity to deliver simplifications and other potential reforms here. As announced at Budget 2020, the government is looking to take initial views and is currently conducting research, ahead of potentially conducting a separate formal consultation on the options at a later stage.

Treaty issues

2.19 UK-resident funds benefit from the UK’s extensive double taxation treaty (DTT) network, which is a key selling point for locating funds in the UK. The UK keeps that network under constant review and has a rolling programme for the negotiation of new DTTs and for the renegotiation of existing treaties. The government welcomes feedback on features of the treaty network that stakeholders consider could be improved or enhanced for funds.

10 Regarding the proposals covered in this call for input, are there any specific considerations that the government ought to take account of in the context of the UK’s double taxation treaty network? Please provide as much detail as possible.

Asset holding companies

2.20 The government is also conscious that, for varying commercial reasons, funds structures deploy a range of different entities (below the level of the fund itself) to make investments, hold assets and ensure the efficient passage of returns to investors. The government also recognises that increasingly there are reasons to locate these entities in the same jurisdictions as the funds themselves. This is especially so following recent international tax policy changes, including through the OECD-led work on measures to tackle Base Erosion and Profit Shifting.

2.21 It is for this reason that at Budget 2020 the government launched a specific consultation on the tax treatment of AHCs in alternative fund structures. This has been considering the case for targeted changes that could make the UK
a more attractive location for the intermediate companies through which funds hold assets, building on previous action such as the 2016 reforms to the Substantial Shareholding Exemption.

2.22 On 15 December 2020, the government published its response to that initial consultation on AHCs and launched a follow-up consultation on the detail of a set of proposed reforms. The government is grateful for the engagement so far on this workstream and encourages stakeholders to respond to the next phase of the AHCs consultation, which closes on 23 February 2021.

Limited partnership funds

2.23 The number of registrations of UK-domiciled limited partnership funds (LP Funds) has declined over recent years. The introduction of the Private Fund Limited Partnership (PFLP) in 2017 sought to enhance the attractiveness of the limited partnership as a UK domiciled fund vehicle, however there was no associated specific tax provision made at this time. LP Funds and PFLPs are subject to the same tax regime as non-fund limited partnerships. The government wishes to explore if the introduction of bespoke partnership taxation rules could provide the opportunity for improved tax administration and certainty of tax outcomes for fund managers and investors.

11 What are the barriers to the use of UK-domiciled LP Funds and PFLPs, and how might tax changes help to address them? Please provide detailed proposals and explain your answers.
Chapter 3
The UK's approach to funds regulation

Current funds landscape
3.1 The UK funds regime consists of authorised and unauthorised, open-ended and closed-ended collective investment vehicles, each with different regulatory treatment and a range of possible legal structures (see Box 3.A). It is important that the UK continues to provide a regulatory and statutory regime which supports an appropriate range of fund structures, suits the wide range of investment objectives and investor needs in the UK and globally, and accommodates a diverse range of underlying assets.

3.2 The government remains committed to the highest standards of regulation and appropriate levels of supervisory oversight and investor protection. The UK’s robust regulatory regime and its world-class regulators are key strengths across financial services, including funds.

Box 3.A: Simplified diagram of the UK’s regulatory and statutory funds regime

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1 UK funds marketed to the general public in the UK, including retail investors, must generally be authorised. Open-ended funds create units and sell them directly to investors, who upon entry and exit receive a unit price based on the fund’s net asset value. Closed-ended funds have a fixed number of shares which can be traded on the secondary market.
Recent reform

3.3 The government and FCA are alert to the need to adapt and evolve the regulatory and statutory framework for the funds regime and have made several reforms in recent years.

3.4 Examples of the government’s work to ensure the right legal forms are available include its creation of a new type of limited partnership for investment funds, PFLPs, in 2017. This was designed to be used by investment funds such as private equity and venture capital funds, and to reduce administrative and compliance burdens.

3.5 Examples of the FCA’s work to support competition and innovation across UK funds includes:

- the Asset Management Market Study, published in 2017, which aimed to drive value for investors and included improvements to how fund managers disclose fund objectives and describe their use of benchmarks.

- the Innovation platform, which it launched in 2014. It offers a range of regulatory support to businesses looking to innovate across financial services, including funds. Tools such as the regulatory sandbox aim to encourage innovative applications of technologies to the financial services market in a way that prioritises consumers’ best interests.

- the Asset Management Authorisation Hub, launched in 2017, which provides a streamlined authorisation process for firms looking to enter the market.

3.6 While seeking to avoid duplication, this review of the UK funds regime will take account of recent and ongoing work by regulators on investment in illiquid assets, which include:

- changes to the FCA rules on permitted links, introduced in 2020, which determine what types of assets unit-linked products, often used for pensions contributions, can invest in. These changes sought to allow more investment in a wider range of illiquid assets if conditions providing enhanced investor protection were met.

- new rules for Non-UCITS Retail Schemes (NURSs) investing in illiquid assets such as property, aiming to make their liquidity management more transparent and predictable, introduced in 2020.

- the Financial Policy Committee joint review of ‘liquidity mismatch’ in open-ended funds, which the FCA and the Bank of England are currently undertaking. This joint work is exploring how the redemption terms of open-ended funds might better align with the liquidity of their assets in order to enhance financial stability and promote funds’ ability to invest in illiquid investments, helping to increase the supply of productive finance to the economy through the business and financial cycles.

- the Productive Finance Working Group, co-sponsored by HM Treasury, the Bank of England and the FCA, specifically looking at how to channel capital into long term productive investment.
the FCA’s consultation CP20/15 ‘Liquidity mismatch in authorised open-ended property funds’, which proposed the introduction of notice periods for daily-dealing property funds and recently closed.

3.7 This review of the UK funds regime will also take account of international work on funds, notably at the Financial Stability Board.

Scope for change

3.8 The government has heard from stakeholders that there are gaps in the range of fund structures available in the UK, particularly to facilitate investment in long-term, illiquid assets and to meet the needs of alternative investment funds (AIFs) for professional investors. New fund structures involve consideration of both tax and regulatory issues and are therefore discussed in Chapter 4, which covers cross-cutting issues.

3.9 The government has also heard from stakeholders that there are elements of regulation relating to existing fund structures and the broader funds environment which could be enhanced.

Fund authorisation

3.10 UK funds marketed to the general public in the UK, including retail investors, must generally be authorised. However, the government is conscious that asset managers marketing funds to professional investors and sophisticated retail investors, who could otherwise invest in unauthorised collective investment schemes, still often prefer to use authorised products. It has been suggested that this might be particularly true for funds targeted at DC pension schemes. In order to shape the government’s enhancements to existing fund structures and to establish where there are gaps, it will be valuable for the government to understand the driving factors behind why firms creating fund products choose authorised or unauthorised fund structures. In particular, it will be valuable to understand why some firms creating fund products targeted at professional investors consider authorised fund structures most appropriate.

12 What benefit does fund authorisation bring to product providers beyond access to retail investors? Does this benefit vary depending on the specific investor base or investment strategy? What relevance does authorisation of a product have to its appeal to the UK market and to the international market?

Speed to market

3.11 Stakeholders have emphasised to the government the importance of being able to launch authorised funds quickly, and of having clarity on the timelines involved. Firms have suggested that they value speed and predictability in the fund authorisation process and that this features in their considerations on where to set up funds. It has been suggested that this is particularly important for Qualified Investor Schemes (QISs).
3.12 Legislation requires the FCA to process complete UCITS scheme authorisation applications within 2 months. For other types of authorised funds, the FCA has a statutory target for the authorisation of new schemes within 6 months of receiving a complete application or within 12 months of receiving an incomplete application. This includes QIS and NURS. The FCA also has voluntary service standards for processing complete applications for authorisation of a NURS within 2 months and a QIS within 1 month, and reports against these targets each year. In 2017/18 and 2018/19 the FCA responded to 100% of all applications within these timeframes. In 2019/20 it responded to 92% of applications within the timeframes. While the FCA makes every effort to meet the service standards, it cannot reach a decision when information is still outstanding from firms, or when it does not consider that the proposal complies with the rules or offers the right level of consumer protection.

3.13 The government considers that the FCA’s 1-month target for authorisation of QIS applications seems an appropriate timeframe given the rigour of the process demanded by the complexity of the product, its availability for sophisticated retail investors, and the standards associated with FCA authorisation. The government also recognises the fact that at a minimum statutory flexibility is required for this timeline to go above 1 month on occasion given that formal rejection of an application if required takes longer than 1 month. However, the government is keen to identify opportunities where the authorisation processes set out in legislation could be refined further and where further clarity on timelines could be provided.

13 Do you have views on the current authorisation processes set out in legislation and how they could be improved?

14 How do the FCA’s timescales for fund authorisation compare internationally? Is there value in providing greater certainty about these timescales? Other than by reducing the statutory time limit, how could this be achieved and what benefits would it bring?

Qualified Investor Scheme

3.14 The QIS was launched in the UK in 2004. It is an authorised fund structure and the regulations allow flexibility on the legal form; a QIS can be a unit trust, open-ended investment company (OEIC), or authorised contractual scheme. A QIS is an AIF for the purposes of AIFMD. It has considerable flexibility on its permitted investments compared to UCITS schemes and NURSs. Therefore, like unregulated collective investment schemes, the QIS is defined in FCA rules as a non-mainstream pooled investment and is intended to be marketed to professional investors and sophisticated retail investors. While this investor scope is more limited than UCITS schemes and NURSs which are open to all categories of investor, it is broader than offshore vehicles often cited as international comparisons, which in some cases have

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high minimum investment thresholds (the rules do not prescribe a minimum investment for a QIS).

3.15 Stakeholders have suggested to the government and the FCA that the QIS can be made more attractive, and this was an area of focus in the UK Funds Regime Working Group proposals. These included recommendations to remove requirements for distribution of income and allowing QISs to distribute capital and carry over income. Proposals around the distribution of capital are covered further in Chapter 4.

3.16 The government and the FCA are keen to understand in detail the limitations of the QIS structure. Specifically, the government and the FCA would like to know the detail of impediments that prevent certain products from being launched within this structure, and why the QIS would be the preferred UK structure (rather than, for example, an unauthorised fund).

3.17 The government is aware of several proposals in this area already. The UK Funds Regime Working Group recommendations included expanding the range of QIS permitted investments, and other stakeholders have suggested to the government that these should include loan origination and investment in a wider range of other funds. Stakeholders have also recommended increasing the 100% cap on borrowing and highlighted the constraints on derivatives exposure. The government and the FCA would welcome further detail from stakeholders on how these proposals would expand the types of investment products that can be delivered within the QIS structure and specifically how this would improve the attractiveness of the vehicle.

3.18 The government has also received comments from stakeholders suggesting that there is room to further optimise the QIS sub-fund structure and the protection provided for the segregation of assets between sub-funds. Specifically, while the segregation of assets between sub-funds in OEIC QISs is specified in legislation through the OEIC Regulations’ Protected Cell Regime, in other forms of QIS it is achieved through contractual means. It has been put to the government that the UK approach to segregation provides less certainty for investors than in other jurisdictions where this segregation is specified in legislation. The government would value further information on this issue and on whether and how any further clarity in this area, via legislation or rules, would be helpful.

3.19 The government notes that the investor scope of the QIS is distinct from some vehicles generally considered as international comparisons, and that its availability to sophisticated retail investors justifies the FCA in imposing requirements beyond those set out in the AIFMD. The government and the FCA would welcome views on how any changes to the QIS should take into account these considerations and the risks which additional complexity could create for the attractiveness of the regime.³

³ The FCA has been conducting a call for input on consumer investments: https://www.fca.org.uk/publications/calls-input/consumer-investments. The FCA will use the responses to put forward a regulatory framework which will look to balance a consumer’s freedom to choose with the need to protect consumers from harm, and to foster the innovation and competition that new entrants bring with the need to stop ‘bad actors’ thriving.
15 What would you like the QIS structure to enable you to do that is not currently possible? What are the existing impediments to your suggested strategies, and why would the QIS be the preferred UK structure for those strategies?

16 Do you think that the range of QIS permitted investments should be expanded? If so, in what way should it be expanded, what impact would this have, and would it still be appropriate for sophisticated retail investors?

17 Do you think that the QIS borrowing cap should be raised or QIS constraints on derivatives exposure should be relaxed? If so, to what magnitude and why? Would this be appropriate for sophisticated retail investors?

18 Do you agree that the QIS sub-fund structure could be improved? If so, how? Would greater clarity for the segregation of assets between sub-funds via legislation or rules be helpful? Please provide details.

**Operational efficiency**

3.20 The UK Funds Regime Working Group report put forward a proposal for an optional ‘Direct2Fund’ investor dealing model. This would offer an alternative to the model operating in the UK whereby Authorised Fund Managers deal in units as principal with investors. This alternative model would give investors the option to transact directly with funds and remove the Authorised Fund Manager as a counterparty to the investor deal, in-line with the approach in other jurisdictions. There has been close engagement between the FCA and industry on the steps which would be needed to implement this proposal, and that work will continue.
Chapter 4
Opportunities for wider reform

4.1 This chapter seeks views on issues which cut across the tax and regulatory elements of the UK funds regime, and on aspects of the wider environment relevant to the regime’s utility and appeal.

Defining areas of opportunity

4.2 The government understands that embedded business practice, industry and investor familiarity, and inertia means that established fund administration hubs will have a significant incumbent advantage over the UK funds regime, even after steps are taken to address UK barriers. For example, the government is not aware of any significant remaining barriers for Exchange Traded Funds (ETFs) to establish in the UK, but few have ever located here. The government has also been told by stakeholders that ‘re-domiciling’ existing funds would involve moving assets from an entity in one jurisdiction to a new entity in the UK which would be expensive for firms and could create tax liabilities for investors, meaning this may therefore be unrealistic. As a result, the government has been encouraged by stakeholders to focus on proposals which would enhance the UK’s reputation as a location for the creation of entirely new funds that have not yet been set up.

19 Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to the creation of entirely new funds that have not yet been set up?

20 Why do firms choose to locate their funds in other jurisdictions in cases where the UK funds regime has a comparable offering, for example ETFs? Are there steps which could help to address this following the potential reforms to the UK funds regime discussed in this call for input, and would the scope to address this vary depending on the type of fund or target investor market?

4.3 The government has been told by stakeholders that there is considerable potential for the UK to build on the reputation and history of its legal and regulatory systems and enhance its attractiveness to funds sold in high-growth international markets. However, the government has also been told by stakeholders that the lack of passporting rights and access to the EU market means that the UK may not be competitive for retail funds internationally. As a result, the government has been encouraged to focus on proposals to enhance the UK’s reputation as a location for AIFs, for which
the challenges around market access faced by retail funds do not apply to the same extent.

4.4 Even with the fundamental reforms to the UK funds regime discussed in this call for input, international traction for the UK funds regime will depend on concerted trade promotion efforts involving HM Treasury, the Department for International Trade and UK industry. The Department for International Trade already runs a comprehensive trade promotion programme for UK funds. In parallel to implementation of changes to the UK funds regime, HM Treasury and the Department for International Trade will engage with stakeholders to consider how this existing trade promotion strategy should evolve to most effectively highlight the UK funds regime.

21 Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to AIFs targeting international markets? Which markets would be most valuable and what would be the key obstacles to overcome in each?

Spreading the benefits of fund administration across the UK

4.5 The benefits of the UK asset management sector are already felt across the UK, through investment in the UK economy, including in shares, infrastructure investment and direct lending to small businesses, and through the pensions and savings the sector manages, with three quarters of UK households using an investment manager’s services.¹ There is also significant asset management employment spread across the UK, with almost 20% of UK jobs which are in asset management firms based in Scotland, and over 40% of UK jobs supporting or resulting from asset management activity based outside London.²

4.6 Fund administration does not need to be located near other financial services, and the 12,000 existing UK fund administration jobs are distributed in clusters across the country. Essex, Edinburgh and London each have over 3,000 fund administration jobs and there is also a notable presence in Manchester, Leeds, Nottingham, Bolton, Glasgow, Stirling, Swindon and Dorset.³ The government therefore considers that by paving the way for more fund administration jobs, enhancements to the UK funds regime can generate more jobs outside of London.

4.7 The government is interested in proposals to proactively encourage such clusters to develop and is interested in how targeted policy interventions could assist with this objective.

³ Investment Association estimates.
The UK’s world-leading universities and highly skilled workforce are an immense asset. However, the government is also aware of the importance of ensuring the UK offers the specific skill sets for fund administration activity.

22 Do you agree that new UK fund administration jobs associated with new UK funds would be likely to locate outside London? How could the government encourage fund administration providers to locate jobs in specific UK regions?

23 How can the government ensure the UK offers the right expertise for fund administration activity?

Enhancing existing fund structures

Investment Trust Companies

4.9 Investment companies include ITCs, Venture Capital Trusts and REITs (covered in Chapter 2). Investment companies are an important part of the overall landscape of investment products and the UK is a world leader in this field, with over £200bn of assets under management in investment companies overall in the UK.4

4.10 ITCs are funds constituted as closed-ended companies with a fixed number of shares which are traded on the secondary market at market value. In contrast, open-ended funds create units on demand and sell them directly to investors, who upon entry and exit receive a unit price based on the fund’s net asset value. The management of ITCs is regulated under AIFMD unless they fall under the threshold for small AIFMs specified in the Directive in which case they are still regulated but only to a limited extent. ITCs are not authorised by the FCA but they do have to comply with UK Listing Rules and company law. As listed companies, their shares are generally available to all types of investors.

4.11 It is important that appropriate fund structures are available to suit a wide range of investment objectives and investor needs, and both closed-ended and open-ended funds have an important role in channelling capital towards productive long-term investments in particular. Closed-ended structures avoid the risk of mismatch between redemption terms and the liquidity of underlying assets that has been the focus of the Bank of England and FCA’s joint review into open-ended funds, and some consider that other structures such as closed-ended funds may be more appropriate vehicles for investing in certain illiquid assets.

4.12 The government is not aware of any specific barriers for ITCs investing in long-term assets but is keen to understand what steps could be taken to support the use of the ITC structure. One suggestion put forward by industry is that asset managers could be required to justify their choice of fund

structure, including why they are opting for either an open-ended or closed-ended structure, for a given investment strategy. Where funds are investing in illiquid assets, it has been suggested that this requirement might result in products which perform more reliably, particularly as regards redemption terms.

24 Are there specific barriers to the use of ITCs, either from the perspective of firms creating fund products or from the perspective of investors seeking to access them? Are there specific steps which could address these?

25 Should asset managers be required to justify their use of either closed-ended or open-ended structures? How effective might this requirement be, and what are the advantages or disadvantages of this approach?

Distribution of capital

4.13 It has also been put to the government that the current restriction for authorised funds on distributing capital limits fund managers’ ability to create certain investment products. Permitting sums to be distributed out of capital would allow authorised funds to supplement returns to investors where the income from underlying investments is insufficient to maintain a targeted yield. Stakeholders have suggested this may lead to the development of new products such as ‘bond ladders’ for the retirement income and drawdown market, which has been transformed since the Pensions Freedoms reforms.

4.14 Tax treatment of investors on capital sums distributed and FCA rules prohibiting the distribution of capital would both need to be considered for any changes in this area to be fully effective in facilitating the development of new products.

26 Should the distribution out of capital be permitted? What types of products would this facilitate and what investment or financial planning objectives would they meet for investors? What are the possible advantages, disadvantages and risks for investors?

27 How do you consider that such a change might be delivered? Please explain your answer, providing specific examples of rules, how they could be changed, and the effect of the changes.
New fund structures

4.15 The government has received a number of proposals for new fund structures which seek to fill gaps identified in the range of UK fund vehicles, to address policy challenges faced by the industry and seize opportunities presented by growing areas of investor demand. This call for input will help to build the government’s understanding of the opportunities presented by potential new fund structures, the design features which would make them a success, and the processes for their implementation. Any proposals taken forward will be thoroughly evaluated before implementation.

Long-Term Asset Fund

4.16 The UK Funds Regime Working Group report set out recommendations to establish a Long-Term Asset Fund (LTAF). It is a proposal for a new authorised open-ended fund structure designed to enable investors, particularly DC pension schemes, to more confidently invest in illiquid assets (such as venture capital and infrastructure) than they can using existing fund structures.

4.17 The proposal has the potential to support several wider government priorities, particularly the work to address the financing gap that exists for innovative firms trying to scale up and to help drive the post-COVID economic recovery. Therefore, the government strongly supports the delivery of an LTAF and the Chancellor has set out his ambition to see the first one established in 2021.

4.18 The FCA plans to consult early in 2021 on setting up a framework for the LTAF, but to make it successful the wider ecosystem for funds will also need to change. For example, the distribution infrastructure will need to support dealing at different intervals as well as notice periods. HM Treasury, Bank of England and FCA are convening an industry working group, co-sponsored by the Economic Secretary, the Governor and the FCA’s CEO, to address current impediments to investment in long-term assets, which will be important in supporting the successful delivery of a Long-Term Asset Fund. The Department for Work and Pensions and The Pensions Regulator are also among the members of this working group.

4.19 To complement this FCA and working group engagement on the regulatory and operational changes required to deliver an LTAF, this call for input will specifically consider the tax implications of the LTAF structure. This will likely include adopting the current rules for authorised investment funds, and consideration of access to any tax reliefs. The VAT treatment of fund management expenses, as covered in Chapter 2, may also be relevant in the context of the LTAF.

28 Do you foresee any issues with the LTAF adopting the current tax rules for authorised investment funds? Would the nature of an LTAF’s investments, and the tax treatment of the income it receives in respect of those investments, mean that the current rules for authorised funds lead to tax inefficient outcomes?
29 Are there any other tax considerations, outside of those that follow from the adoption of the current tax rules for authorised funds, that will be important to the success of the LTAF? Please explain your answer.

New unauthorised fund vehicles

4.20 In addition to its authorised fund structures, the UK offers investment companies, as set out in paragraph 4.9, as well as unauthorised vehicles in the legal forms of unit trusts and limited partnerships. When these unauthorised funds are of sufficient size, their managers require authorisation as AIFMs under the UK legislation which implemented AIFMD, but the funds themselves do not require authorisation by the FCA. Unauthorised funds offer greater investment freedom than authorised funds but are more limited in the types of investors they can be sold to, and, with the exception of investment companies, are not accessible to retail investors in general.

4.21 Stakeholders have suggested that there is a gap in the UK’s unauthorised fund range for new, flexible, tax-efficient unauthorised fund structures which would be used for products aimed only at professional investors and investing in alternative asset classes and investment strategies. It has been put to the government that these vehicles would have strong international appeal and could support the government’s work on facilitating investment in long-term and productive assets outlined in Chapter 1.

4.22 The government is considering a range of industry proposals for unauthorised fund structures as part of this call for input. Stakeholders have emphasised the value of unified branding across the UK structures for funds targeting only professional investors, in order to maximise awareness and take-up, and have suggested that this new professional vehicle should be able to take multiple legal forms. The UK Funds Regime Working Group Report and the Alternative Investment Management Association have proposed this could be structured as either a corporate or as a ‘partnership’ (which we assume to mean limited partnership). The Association of Real Estate Funds, supported by the UK Funds Regime Working Group, has also suggested that it could be structured as a contractual scheme, which they suggest in particular could offer an onshore alternative to fund managers looking to service pension funds’ as well as other, professional investors’ investments in underlying UK real estate assets.

4.23 The proposals for all three structures suggest that they should be unconstrained in terms of eligible asset classes and investment strategies. The proposals for the unauthorised corporate and limited partnership structures suggest that they should have flexibility on whether they are open-ended or closed-ended, and on whether they are listed or unlisted. The
The proposal for the contractual structure is clear that it should not be authorised. However, views from stakeholders received to date on the corporate and limited partnership structures are more mixed: some consider that these should be entirely unauthorised collective investment schemes, while others suggest that they should be subject to a new ‘light-touch’ form of authorisation. It is unclear what purpose this ‘light touch’ authorisation would serve as it would not be appropriate to label such products as being in some way FCA certified if the regulator had minimal involvement in the process.

Stakeholders have suggested that the new unauthorised corporate structure should be established outside of the existing regime for authorised corporate funds. The proposed new form of unauthorised limited partnership structure could use existing limited partnership legislation but stakeholders would prefer it to be established separately. It has been suggested that the unauthorised contractual vehicle should be created as a version of the existing Co-ownership Authorised Contractual Scheme.

Tax

To an extent the high-level tax status of these unauthorised vehicles would be dictated by the legal form of the fund. For instance, the tax rules for a new unauthorised contractual scheme would likely adopt similar rules to the tax regime for Co-ownership Authorised Contractual Schemes. However, across each of the proposals, there will be a range of tax issues that the government will consider as part of this call for input. These include:

- the VAT treatment of fund management expenses;
- whether reliefs from any other taxes are justified and operable;
- whether there are any tax avoidance risks associated with the proposed structure, and if these can be mitigated; and
- the interaction with any other relevant aspects of government tax policy, including the non-resident capital gains tax rules and corporation tax rules (where the prospective fund would take a corporate legal form).

30 How would each of the proposed unauthorised fund structures add value alongside existing authorised and unauthorised UK fund structures, including the QIS? Would they bring value alongside each other? Would they bring unnecessary complexity? What would each structure allow fund managers and investors to do that they are unable to do currently in the UK regime? Please address each

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5 The proposals for the corporate, limited partnership and contractual structures suggest that these funds could also be a closed-ended variation where investors have the ability to redeem shares at net asset value but only at set intervals.
proposed unauthorised structure separately, and indicate which of the proposed unauthorised structures you consider most important.

31 Would these unauthorised structures support the government’s work on facilitating investment in long-term and productive assets, as outlined in Chapter 1?

32 How do you think the government could best achieve consistent branding for UK fund structures which target only professional investors?

33 Do you think that these unauthorised structures should be unregulated collective investment schemes? If you consider any ‘light-touch’ authorisation necessary or desirable, what do you understand this term to mean and what form could it take? Why would it be beneficial for investors, and how could it be explained to them in a way that avoids confusion with the regulatory assurances of fully-authorised structures?

34 Do you think these structures should have flexibility on whether they are open-ended or closed-ended? Should they have flexibility on whether they are listed or non-listed? How important is this?

35 Do you think these vehicles should or could be implemented as part of existing structures set out in legislation? Please provide details. If not, please explain why not.

36 Are there any specific tax treatments that would be either necessary or desirable to support the successful introduction of new unauthorised fund vehicles in the UK? Please provide detail of how and where this is the case.

37 Are there any interactions with wider tax policy that the introduction of new unauthorised vehicles would need to navigate, in order to avoid unintended consequences?

Other proposals

4.27 The government also welcomes ideas from stakeholders for other measures that could enhance the UK funds regime and advance the objectives outlined in Chapter 1.

38 Are there other things government should consider as part of this review of the UK funds regime, or proposals for enhancements to the UK funds regime which the government has not included in this call for input? If so, how important are they and how would you like to see them prioritised in relation to the proposals explored in this call for input?
Annex A

List of questions

1. This call for input on the UK funds regime is necessarily wide-ranging. As the government would not be able to take forward all proposals immediately, what do you think the top 3 priority proposals should be for government implementation and why?

2. How effective were recent reforms to UK funds taxation in achieving their aims? Please explain your answer. Could anything have made these reforms more effective, particularly in terms of increasing the attractiveness of the UK as a location to set up funds?

3. Why has uptake of TEFs been limited? Please explain any operational or commercial factors that have influenced their uptake. How could these be addressed?

4. How would the proposals in paragraph 2.9 improve tax efficiency of multi-asset authorised funds? Please explain how the proposals would work in practice and how a proportionate impact on HMRC could be ensured.

5. Are there any additional changes the government could consider to reduce tax leakage in multi-asset/balanced authorised funds?

6. Where funds are already tax neutral, how would a tax-exempt status for funds influence decisions about how and where to set up funds?

7. How would tax-exempt funds affect the competitiveness and attractiveness of the UK funds regime? Please explain your answer providing evidence and international comparisons where possible.

8. What would be the likely impact if changes were made to the REIT regime in the areas discussed in paragraph 2.16? To what extent could investment in the UK be expected to increase, and what would be the drivers for this? Could such changes be expected to impact the extent to which funds with UK and foreign property assets are managed in the UK?

9. Are there any other reforms to the REIT regime that the government ought to consider, and why?

10. Regarding the proposals covered in this call for input, are there any specific considerations that the government ought to take account of in the context of the UK’s double taxation treaty network? Please provide as much detail as possible.
11 What are the barriers to the use of UK-domiciled LP Funds and PFLPs, and how might tax changes help to address them? Please provide detailed proposals and explain your answers.

12 What benefit does fund authorisation bring to product providers beyond access to retail investors? Does this benefit vary depending on the specific investor base or investment strategy? What relevance does authorisation of a product have to its appeal to the UK market and to the international market?

13 Do you have views on the current authorisation processes set out in legislation and how they could be improved?

14 How do the FCA’s timescales for fund authorisation compare internationally? Is there value in providing greater certainty about these timescales? Other than by reducing the statutory time limit, how could this be achieved and what benefits would it bring?

15 What would you like the QIS structure to enable you to do that is not currently possible? What are the existing impediments to your suggested strategies, and why would the QIS be the preferred UK structure for those strategies?

16 Do you think that the range of QIS permitted investments should be expanded? If so, in what way should it be expanded, what impact would this have, and would it still be appropriate for sophisticated retail investors?

17 Do you think that the QIS borrowing cap should be raised or QIS constraints on derivatives exposure should be relaxed? If so, to what magnitude and why? Would this be appropriate for sophisticated retail investors?

18 Do you agree that the QIS sub-fund structure could be improved? If so, how? Would greater clarity for the segregation of assets between sub-funds via legislation or rules be helpful? Please provide details.

19 Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to the creation of entirely new funds that have not yet been set up?

20 Why do firms choose to locate their funds in other jurisdictions in cases where the UK’s funds regime has a comparable offering, for example ETFs? Are there steps which could help to address this following the potential reforms to the UK funds regime discussed in this call for input, and would the scope to address this vary depending on the type of fund or target investor market?

21 Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to AIFs targeting international markets? Which markets would be most valuable and what would be the key obstacles to overcome in each?

22 Do you agree that new UK fund administration jobs associated with new UK funds would be likely to locate outside London? How could the
government encourage fund administration providers to locate jobs in specific UK regions?

23 How can the government ensure the UK offers the right expertise for fund administration activity?

24 Are there specific barriers to the use of ITCs, either from the perspective of firms creating fund products or from the perspective of investors seeking to access them? Are there specific steps which could address these?

25 Should asset managers be required to justify their use of either closed-ended or open-ended structures? How effective might this requirement be, and what are the advantages or disadvantages of this approach?

26 Should the distribution out of capital be permitted? What types of products would this facilitate and what investment or financial planning objectives would they meet for investors? What are the possible advantages, disadvantages and risks for investors?

27 How do you consider that such a change might be delivered? Please explain your answer, providing specific examples of rules, how they could be changed, and the effect of the changes.

28 Do you foresee any issues with the LTAF adopting the current tax rules for authorised investment funds? Would the nature of an LTAF’s investments, and the tax treatment of the income it receives in respect of those investments, mean that the current rules for authorised funds lead to tax inefficient outcomes?

29 Are there any other tax considerations, outside of those that follow from the adoption of the current tax rules for authorised funds, that will be important to the success of the LTAF? Please explain your answer.

30 How would each of the proposed unauthorised fund structures add value alongside existing authorised and unauthorised UK fund structures, including the QIS? Would they bring value alongside each other? Would they bring unnecessary complexity? What would each structure allow fund managers and investors to do that they are unable to do currently in the UK regime? Please address each proposed unauthorised structure separately, and indicate which of the proposed unauthorised structures you consider most important.

31 Would these unauthorised structures support the government’s work on facilitating investment in long-term and productive assets, as outlined in Chapter 1?

32 How do you think the government could best achieve consistent branding for UK fund structures which target only professional investors?

33 Do you think that these unauthorised structures should be unregulated collective investment schemes? If you consider any ‘light-touch’ authorisation necessary or desirable, what do you understand this term to mean and what form could it take? Why would it be beneficial for investors, and how could it be explained to them in a way that avoids confusion with the regulatory assurances of fully-authorised structures?
Do you think these structures should have flexibility on whether they are open-ended or closed-ended? Should they have flexibility on whether they are listed or non-listed? How important is this?

Do you think these vehicles should or could be implemented as part of existing structures set out in legislation? Please provide details. If not, please explain why not.

Are there any specific tax treatments that would be either necessary or desirable to support the successful introduction of new unauthorised fund vehicles in the UK? Please provide detail of how and where this is the case.

Are there any interactions with wider tax policy that the introduction of new unauthorised vehicles would need to navigate, in order to avoid unintended consequences?

Are there other things government should consider as part of this review of the UK funds regime, or proposals for enhancements to the UK funds regime which the government has not included in this call for input? If so, how important are they and how would you like to see them prioritised in relation to the proposals explored in this call for input?
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