

FCA confirms new regime for a long-term asset fund

AT A GLANCE

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Contacts

Andrew Strange
Director

T: +44 (0) 7730 146626
E: andrew.p.strange@pwc.com

Lucas Penfold
Senior Manager

T: +44 (0) 7483 407581
E: lucas.penfold@pwc.com

Tom Bramhill
Manager

T: +44 (0) 7483 405543
E: tom.bramhill@pwc.com



What's new?

- The FCA published [PS21/14: A new authorised fund regime for investment in long-term assets](#) on 25 October 2021, setting out final rules for a new category of fund designed to invest in long-term, illiquid assets.
- The long-term asset fund (LTAF) was first announced by the Government [in November 2020](#).

What does this mean?

- The FCA is proceeding with its [proposals](#) from May 2021. Under the rules, only firms that are authorised as full-scope UK AIFMs are able to manage LTAFs.
- The final rules provide a principles-based framework to provide flexibility on the assets LTAFs can invest in, along with appropriate protections for investors.
- These protections include longer redemption periods compared to other fund structures, higher levels of disclosure, and governance features.
- The FCA is introducing a redemption period spanning a minimum of 90 days. Under the original proposals, firms were to be given flexibility over the length of this period. Redemptions cannot be offered more frequently than monthly.
- Following feedback on the original proposals, the FCA has also amended the distribution restrictions of an LTAF so that it can now be targeted at high net worth investors, as well as professional and sophisticated retail investors.
- The LTAF would also be aimed at defined contribution pension schemes, and so the FCA proposes amending the permitted link rules to enable pensions schemes to consider the proportion of illiquid assets across their investment portfolios.
- The regulator plans to consult next year on whether LTAFs should be distributed to a wider range of retail investors.
- Similar to the existing requirement to assess value in an authorised fund, a senior manager will need to be responsible for ensuring the AFM of an LTAF manages the fund in the best interests of the fund, its investors and the integrity of the market (published in an annual report). They will need to assess four further elements: the valuation of investments, due diligence, conflicts of interest and liquidity management.
- The FCA plans to consult on amending the requirement for a depository to be the legal owner of an LTAF's non-custodial assets. Where a firm wishes to launch an LTAF, the FCA will consider applications to waive this requirement in accordance with the relevant statutory tests.

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What do firms need to do?

- Asset managers and insurers should consider whether the final rules create any strategic opportunities to use the LTAF structure as a vehicle to invest in illiquid assets (e.g. venture capital, private equity, private debt, real estate and infrastructure).
- In this context, they should consider how this new structure might be able to deliver better investment outcomes for their clients, and consider new product development opportunities.
- Firms intending to offer LTAFs will need to carefully consider the specific requirements being introduced around governance, liquidity management, disclosure and reporting.
- As part of any wider product development plans to establish an LTAF offering, firms should develop a draft roadmap setting out a route to complying with the new rules. They should also consider the processes and controls needed to satisfy ongoing obligations being introduced by the regulator.
- The tax structure of LTAFs remains critical to ensure the success of the proposals, and firms should consider this too.
- Given that the LTAF is a new fund structure, the FCA encourages firms considering making an authorisation application for an LTAF to engage early to help speed up the process.
- Where a firm wishes to apply for a waiver on the requirement for a depositary to be the legal owner of the non-custodial assets held in an LTAF, they will need to satisfy the regulator that proposed alternative custody arrangements provide appropriate investor protection. Firms should engage with the regulator before submitting a waiver application.

Next steps

The new rules will come into force on 15 November 2021. The FCA will consult on changes to the distribution restrictions for LTAFs and the depositary registration requirement during the first half of 2022



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